


Engineering the future.

1999 ANNUAL REPORT



Universal Forest Products®, Inc.



Universal Forest Products, Inc. engineers, manufactures, markets, and distributes value-added wood products, and, in the process, has engineered leadership standing as:

- the nation's foremost designer, manufacturer, and distributor of lumber products – such as lattice, fence panels, deck components, and kits for various outdoor products – and distributor of dimension lumber to the retail do-it-yourself (D-I-Y), manufactured housing, site-built housing, and industrial markets;
- the nation's largest producer of pressure-treated wood; and
- North America's largest manufacturer of

engineered roof systems for both the manufactured housing and the site-built housing markets.

By producing the right products for the right markets, capitalizing on decades-long customer and supplier relationships, and leveraging our national presence and strength, Universal is positioned to grow with national customers that are emerging from the consolidations in each of our key markets.

Based in Grand Rapids, Michigan, Universal has 75 facilities in 66 locations throughout the United States, Canada, and Mexico.

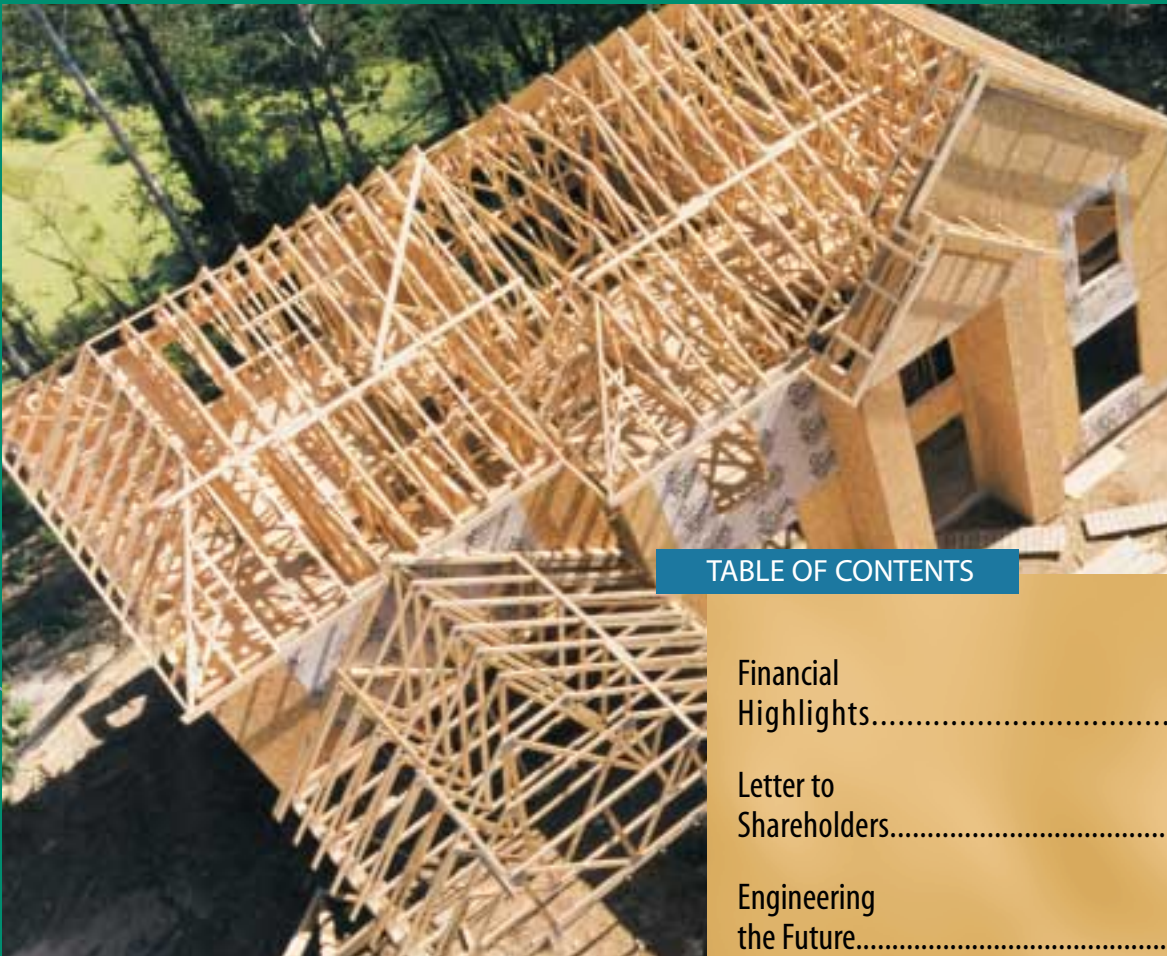


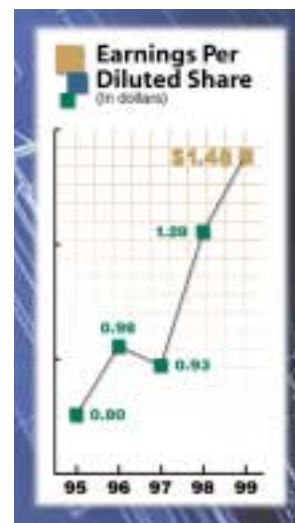
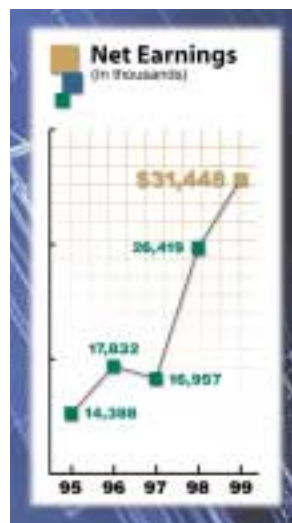
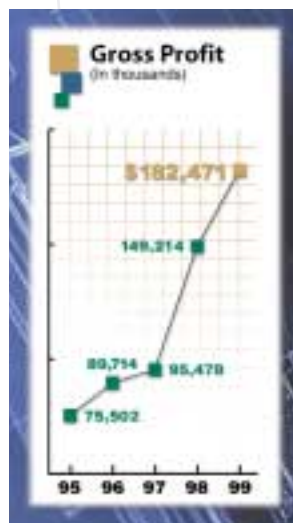
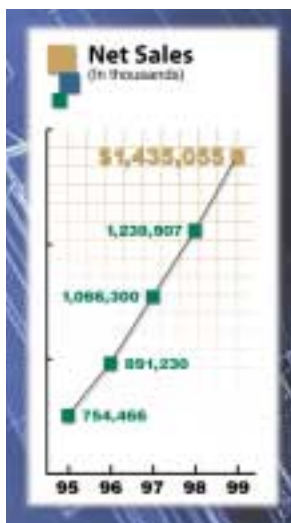
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Financial Highlights

(In thousands, except per share and statistical data.)

	1999	1998	% change
CONSOLIDATED STATEMENTS OF EARNINGS DATA			
Net sales	\$1,435,055	\$1,238,907	+ 15.8
Gross profit	182,471	149,214	+ 22.3
Earnings before income taxes	51,537	43,034	+ 19.8
Net earnings	31,448	26,419	+ 19.0
Dividends per share	\$0.075	\$0.070	+ 7.1
Earnings per diluted share	\$1.48	\$1.28	+ 15.6
Weighted average shares outstanding with common stock equivalents	21,186	20,613	+ 2.8
CONSOLIDATED BALANCE SHEET DATA			
Working capital	\$ 124,324	\$ 99,559	+ 24.9
Total assets	468,638	419,795	+ 11.6
Long-term debt and capital leases	154,298	141,880	+ 8.8
Shareholders' equity	214,562	191,583	+ 12.0
STATISTICS			
Gross profit as a percentage of net sales	12.7%	12.0%	n/a
Net earnings as a percentage of net sales	2.2%	2.1%	n/a
Return on beginning equity	16.4%	22.8%	n/a
Current ratio	2.6	2.2	n/a
Debt to equity ratio	.72	.74	n/a
Book value per common share	\$10.65	\$9.29	+ 14.6





DEAR SHAREHOLDERS,

Engineering is about the calculated design and production of complex components and processes. It also is about strategy: about wisely and prudently plotting the course for a company, taking advantage of the right opportunities, and utilizing the best processes and talents at just the right time.

This comprehensive application of “engineering” has been our commitment – and the basis for our success – at Universal Forest Products.

Our leadership in the design and manufacture of value-added wood products is a result of our success in carefully plotting our destiny. We have been boldly “engineering the future” – strengthening our role as an engineering and manufacturing company, affirming our leadership position in the markets we serve, ensuring our continued strength and success through ongoing diversification, and carefully engineering our relationships with our customers and vendors.

We are driven by our vision, which states: “We intend to drive profitability by growing our market share and revenues through increased sales of new value-added wood fiber products and expansion into new distribution channels.” By driving profitability, we’re engineering shareholder value, and, ultimately, that’s our goal.

Our numbers are proof that we’re engineering success. Total sales in 1999 hit a record \$1.44 billion, including healthy increases in three of the four markets we serve: We grew sales to the D-I-Y retail market by 16 percent, to the industrial market by 18 percent, and to the site-built construction market by an astounding

67 percent. And we maintained a strong presence in manufactured housing, a market that saw an overall slowdown in production.

The reasons for our success are varied, but they all reflect Universal’s commitment to engineering the future. By maximizing the use of available technology – and, sometimes, inventing new technologies – we’re providing better products, more efficient processes, and a level of service unparalleled in our industry. For example, in 1999 we:

- helped key national retail customers boost sales and cut costs through value-added products, effective marketing, and efficient distribution;
- increased our manufacturing capacity and our management staff through the successful integration of newly acquired companies and the expansion of some of our current facilities;
- continued to refine and produce highly engineered wood products – such as trusses, joists, and wall panels – that grew in popularity and demand among builders nationwide. Sales of those products in 1999 represented a 44 percent increase over 1998;
- engaged in a review of each of our 75 manufacturing facilities to maximize efficiencies and ensure that we’re a low-cost producer of superior products;
- continued to build a strong engineering and technical staff to serve our customers in the site-built construction market;
- created industrial packaging solutions that quickly are providing us a strong national presence in that highly fragmented market; and
- advanced our commitment to enhance our

Vision Statement:
“We intend to drive profitability by growing our market share and revenues through increased sales of new value-added wood fiber products and expansion into new distribution channels.”

customer-driven e-business capabilities, and continued to refine and strengthen our e-business strategies to cut costs and continually enhance customer value.

Our customers benefit from our standards for excellence: Their products are engineered to their particular needs and specifications; they are able to reduce their inventories and costs because of our efficient distribution; in a tight labor market, they need less labor when they utilize our engineered components; they are assured of higher quality; and they continue to realize savings because of our cost efficiencies.

As the markets we serve see continued consolidation, Universal Forest Products is emerging as a single-source supplier to national customers.

Engineering success also is about designing programs to attract, train, and retain outstanding employees throughout our international organization. During 1999, we "re-engineered" our benefits package, embarked on strong training programs and safety initiatives, and enhanced other programs designed to attract and maintain an excellent workforce.

Of course, we are disappointed that the investment community is not recognizing the true value of Universal in light of our significant accomplishments and projected growth. The entire building products sector has suffered and, as a result, is undervalued. While our stock is faring better than that of some of our peers, we still face a staggering inequity.

We firmly believe the market eventually will swing back toward companies, like ours, that have the right strategy for growth, a strong financial position, and a solid earnings and growth history. In the meantime, we have taken advantage of this buying opportunity



PERFORMANCE 2002 GOALS:

- Achieve \$2 billion in annual sales;
- Become the #1 supplier to the four markets we serve: D-I-Y home center, manufactured housing, site-built construction, and industrial and agricultural;
- Increase our percentage of manufactured value-added products to 50 percent of total sales;
- Increase net margins by a minimum of 50 percent;
- Consistently earn a return on investment greater than our cost of capital.



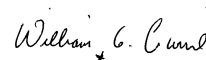
and repurchased more than 677,800 shares in 1999. While we have excellent investment opportunities in the growth of Universal, as long as our stock remains undervalued,

share repurchase will be an investment strategy for our company.

We're proud of our accomplishments in 1999. Our strong success moved us closer to the aggressive goals we established in our Performance 2002 program, and we continue to drive profitability by growing our business and designing products, programs, and processes that will engineer our success well into the new century.

Sincerely,


Peter F. Secchia
Chairman of the Board


William G. Currie
Vice Chairman and Chief Executive Officer



Engineering the future.

Record annual sales and earnings ... eight consecutive quarters of increased sales and earnings ... healthy gains toward long-term goals ... continued identification as the nation's leading supplier in the markets we serve and increased penetration in those markets ... new products that are realizing higher margins ... a strong and growing nationwide presence poised to meet the needs of growing national customers.

These are just some of the elements that made up the story of Universal Forest Products in 1999. It's a story about the engineering of an organization, its products and processes, and its position in the marketplace – and the hard and diligent work of the people who make Universal operate and succeed.

It's also a story 45 years in the making, and one that capitalizes on the strong relationships we have

Engineering

How We Do What We Do.

In 1999, Universal embarked on a manufacturing initiative to engineer efficiencies at each of our plants. For the team of engineers and technicians involved in the program, it has meant traveling nearly one million air miles, to visit and design enhancements to operations at all our facilities. For Universal, it means a focus on driving down costs to ensure that we remain a low-cost producer in the markets we serve.

To spearhead this effort, we organized manufacturing, engineering, construction, and wood preservation into one unit. The resulting team of nearly 30 engineers and technicians is maximizing efficiencies in plants and processes by meticulously reviewing plant layouts, machines, new product design and development, plant construction, and wood treating systems.

For example, engineers have enhanced the method by which Universal



forged, the unparalleled experience we have gained, and the knowledge and confidence we have built during those four decades of success and service.

ENGINEERING SUCCESS

In 1999, Universal was focused on “engineering the future” by carefully and prudently designing systems, processes, products, and strategies to

meet growing and diverse market demands.

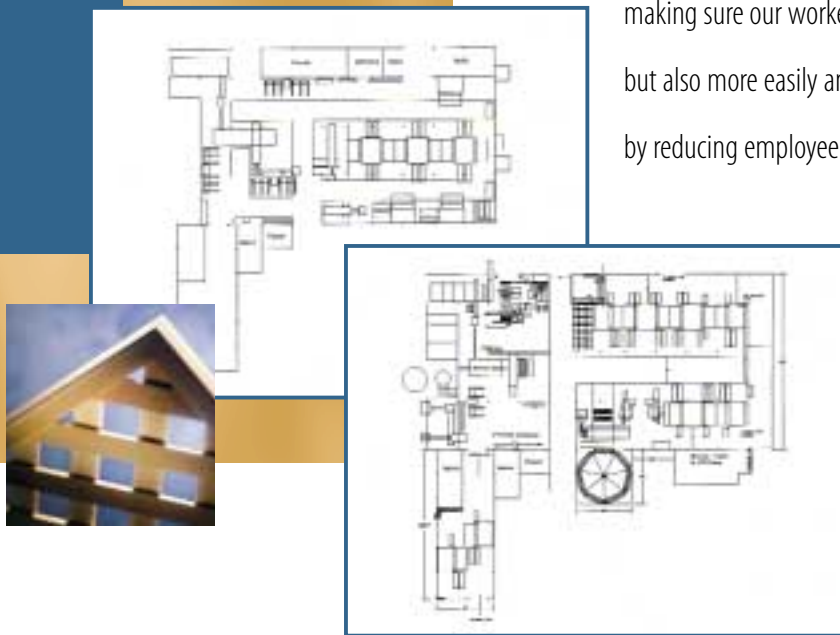
Through our network of 75 manufacturing facilities in 66 locations throughout the U.S., Canada, and Mexico, Universal serves more than 5,800 customers at more than 8,200 locations.

Because of Universal’s breadth of value-added and commodity lumber products, our precise and responsive just-in-time delivery systems, and our excellent customer service, we can be a single-

manufactures roof trusses for the mobile home market in a way that not only has created cost efficiencies, but also has increased output and quality, decreased response time to customers, and decreased inventories without sacrificing service to our customers.

Because our manufacturing engineers are working closely with production workers and human resources personnel, we are able to design processes with ergonomics in mind, making sure our workers not only can perform their jobs more efficiently, but also more easily and safely. And this positively impacts our bottom line by reducing employee injury.

In many ways, Universal’s commitment to engineering efficiencies at the plant level is translating into corporate-wide savings.



Before and after view of a plant redesign.



source supplier to our national customers.

In this era of mergers and consolidations, our national presence is one of our great strengths. We are positioned and prepared to serve emerging key national customers who want national suppliers to meet multiple needs. This national supplier status allows us to provide customers with consistent quality and service, national distribution, purchasing power, and a lower cost of doing business.

ENGINEERING OUR POSITION IN THE MARKETPLACE.

Our size gives us additional strength. We can dedicate processes and people to enhancing our operations and reducing costs, and we can implement those improvements in our operations nationwide. Customers served by our Salisbury, North Carolina, plant, for example, may well

Engineering Processes And Equipment To Meet Special Needs.

Universal Forest Products is uniquely positioned, and its facilities are engineered, to handle large orders from large customers nationwide. But what happens when a customer needs a small quantity of product?

Often, that can translate into significant costs. Because companies normally are set up to manufacture products in large batches, a customer may be forced to purchase a large quantity and use valuable warehouse space for product he doesn't need. He also may have to pay for the high cost of disrupting a plant's normal manufacturing routine or for having the work done manually.

But Universal employees have engineered equipment and processes that allow us to meet customers' special requests — efficiently, on time, at the right price, and with the superior quality that has become a Universal hallmark.

Take the UFP-99 saw, a Universal-designed, computer-driven saw that



experience cost savings because of innovations made at a facility in Windsor, Colorado.

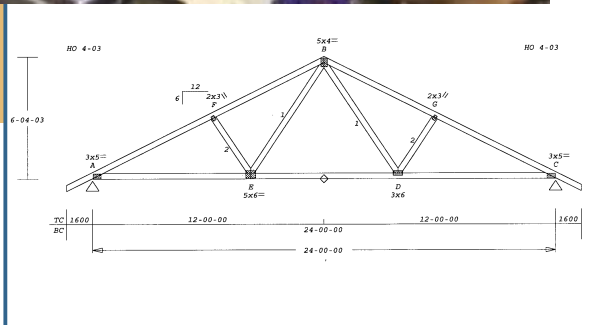
In 1999, a team of engineers assessed each of our 75 plants to determine and prioritize a long-term engineering process designed to ensure efficiencies and, in some cases, re-engineer processes in our quest to be a low-cost supplier to the markets we serve. We're just beginning to realize the significant benefits of that effort.

We have engineered our leadership position in the marketplace, in part, by continually diversifying our product base, and expanding into new and growing markets. Our size and flexibility enable us to shift production to different products when the demand for product lines shifts, which means that Universal can show consistent growth even when one of our market segments experiences a temporary downturn.



enables Universal to respond quickly to unexpected customer demands for small orders of housing trusses. The UFP-99 has been engineered to cut all parts of a truss, including the angles that traditionally would have been manually cut. The precision and automation of the UFP-99 increase output, enhance safety, and ensure accuracy and quality.

By dedicating the UFP-99 saw to small quantities, Universal is able to meet special requests for small orders with high-quality products without disrupting normal plant operations and material flow, and without creating excess inventory — for Universal or for the customer.



Because we are the nation's largest buyer of solid-sawn lumber from primary manufacturers, Universal has purchasing power advantages, which result in efficiencies and cost-savings we can pass on to our customers.

Universal Forest Products also can buy the "entire log" from suppliers, and use the whole log in the production of various value-added products. At one end, it allows us to partner with our suppliers.

At the other, we can create products, and profit, from what others might consider scrap.

This also allows us to advance our own environmental program outline, which calls for us to use all wood fiber in the creation of products so that we can contribute to sound sustainable forestry principles. Although Universal owns no forests, we are part of national efforts to define and implement sustainable forestry.

Open Joist 2000:TM Bringing Revolutionary Products To Market.

Known nationwide for our state-of-the-art design and manufacture of trusses for the building industry, Universal Forest Products is enjoying success with a highly engineered open web floor truss we added to our extensive product line. OPEN JOIST 2000 open web floor joists boast a revolutionary design that allows builders to construct buildings more quickly and easily with a product that is lighter yet stronger, easier to handle, and safer to install than traditional open web trusses.

What makes OPEN JOIST 2000 better? Its engineered web design is finger jointed and glued, without nail plates, which makes for a stronger and more solid floor – even though it weighs less than a conventional truss. What's more, in traditional construction using 2x10 floor joists, mechanical systems – such as HVAC, plumbing and electrical lines – have to be suspended below floor framing. With OPEN JOIST 2000, those systems can be installed within the frame. That means basement ceilings aren't interrupted by unsightly –



ENGINEERING SUCCESS IN THE MARKETS WE SERVE.



Do-It-Yourself Retail

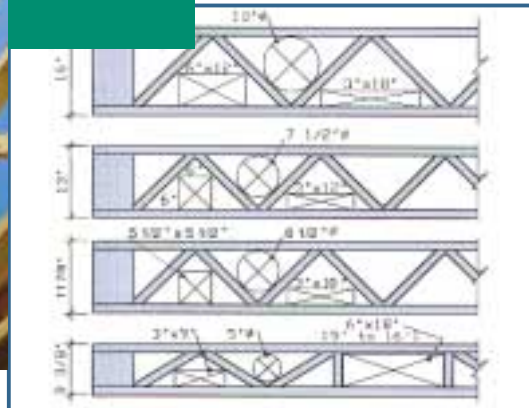
Universal Forest Products is the nation's leading manufacturer and distributor of pressure-treated lumber and value-added wood products – such as

decking, fencing, lattice, and kits for outdoor products – to the retail D-I-Y market. Through sophisticated marketing, and research and development, Universal provides products such as Deck Necessities®, Fence Fundamentals™, Outdoor Essentials™, and Lattice Basics™ to the D-I-Y market. Our unique manufacturing-distribution-marketing approach enables retailers to use Universal for all aspects of a successful wood product retail

and low-hanging – ducts, pipes, and electrical lines. For builders, OPEN JOIST 2000 minimizes the dangers of drilling and cutting holes in the wrong places. For homeowners, OPEN JOIST 2000 absorbs and dampens floor vibrations more effectively than traditional solid joists, making a home quieter.

Universal Forest Products recognized the strength and powerful market potential of this product and, through a special licensing agreement, we engineered our manufacturing and distribution systems to offer OPEN JOIST 2000 to our customers. Today, OPEN JOIST 2000 is manufactured at two of our facilities – in Grandview, Texas, and at our Consolidated Building Components plant in Emlenton, Pennsylvania –

and is helping to grow Universal's presence and leadership in the burgeoning modular home and site-built construction markets.





program. And we work with major customers on e-business opportunities to increase mutual operating efficiencies and profitability.

Today, Universal sells to more than 1,500 customers and distributes products through 4,500 D-I-Y retail locations nationwide. Universal's product range, integrity, efficient distribution, fully integrated manufacturing and marketing programs, and in-store service and support contribute to our

customers' overall success.

With the tremendous call for home improvement (71 percent of the 119 million housing units in the U.S. are more than 20 years old and many need upgrading), the demand for Universal's products is strong. That's one reason for Universal's strong performance. There's another: the retail market is seeing significant consolidation, and the few emerging national retailers want national suppliers

Engineering A Lead In The Industrial Market.

When a national producer of turf care equipment needed packaging to store and ship its products, it turned to Universal Forest Products. In short order, Universal began production of special containers that can withstand the rigors of storing and shipping the customer's equipment. The solution allows the customer not only to safely ship valuable and heavy products (each unit can weigh one ton), but also to stack them — up to six units high — in warehouses challenged for floor space.

Universal's thorough knowledge of wood fiber enables us to select the best material for each customer's special industrial needs. That knowledge, coupled with our engineering expertise, enables Universal to create packaging that effectively protects products for storage and shipping. The crates for the lawn care equipment are exceptionally strong, easy to assemble and reusable, allowing for trouble-free, and space-saving, storage.



to meet their many needs. Universal is positioned to do just that – and to grow in tandem with these national customers.



Manufactured Housing

Universal Forest Products serves more than 200 locations, including the country's leading manufacturers, and for years has been the nation's

leading supplier of engineered trusses for manufactured homes, as well as a preferred supplier of structural components.

In 1999, the manufactured housing industry experienced a downturn, the result of an over-supply of finished homes at the retail level. We believe this is a short-term slump, and we remain confident in the long-term viability of this industry. As this oversupply corrects itself, Universal's

The benefits to the customer don't end there. Thanks to Universal's precise and responsive manufacturing and delivery systems, we are able to supply the customer based on a just-in-time program – satisfying a rigorous production schedule and making Universal a valuable supplier. In the industrial arena, this precise production and delivery is critical: customers

need packing and shipping material as soon as product comes off the assembly line; at the same time, they don't want to take up critical warehouse space. They rely on the strength of Universal's engineering and manufacturing processes, and the dependability

and precision of our delivery systems, to get the job done – right and on time.





engineered products will continue to play a key role in maintaining the affordability of manufactured housing. To that end, Universal's research-and-design staff works with manufactured housing customers to develop innovative components that will enable them to build affordable and high-quality homes.

Like the other markets Universal serves, the manufactured housing market is experiencing

consolidation. The emerging national manufacturers want national suppliers. Universal, through its history of excellent products and service to the manufactured housing industry, remains a national supplier of choice.



Site-Built Construction

The economy in 1999 continued to drive a

Engineering

A Successful Acquisition And Expansion Strategy.

Universal has engineered and embarked upon a successful acquisition and expansion strategy, based on stringent policies that have enabled us to seamlessly and successfully add new companies and operations. This strategy is growing Universal's national presence as well as our capabilities.

In 1999, Universal:

- acquired a Westminster, Maryland, facility that increases our manufacturing capacity of roof trusses, floor trusses, and wall panels in the Mid-Atlantic market;
- acquired facilities in three Texas cities — New Waverly, Silsbee, and Schertz — to add to our pressure-treated production capacity;
- opened a new facility in Grandview, Texas, to manufacture and distribute our OPEN JOIST 2000 product line, and to provide increased production capacity for engineered wood components;
- added a new facility in Denver, Colorado, to manufacture roof trusses and wall panels;



strong housing market. And, increasingly, builders are realizing the benefits of, and switching to, engineered wood components such as the trusses and wall panels designed and manufactured by Universal Forest Products. Universal's pre-assembled wood components provide more consistency, better quality, a shorter building time, and are less expensive than traditional methods of on-site construction. They allow the customer to

more closely estimate job costs by offering a defined product cost, and they eliminate the loss due to the theft and waste often associated with traditional site-built construction.

There's another advantage: In this era of labor shortages, Universal's pre-assembled components reduce the amount of labor needed to complete a job, providing additional cost and time savings and enhancing safety.

- increased manufacturing capacity of Nascor™ I-joists, roof trusses, floor trusses, and wall panels in the Mid-Atlantic market with the opening of new facilities in Hohenwald, Tennessee, and Liberty, North Carolina;
- added a plant in Hope, Arkansas, to manufacture industrial lumber products;
- added new roof truss and floor truss manufacturing lines to existing facilities in Belchertown, Massachusetts, and Woodburn, Oregon;

- opened a new, larger manufacturing and engineering support facility in Grand Rapids, Michigan, to drive efficiencies; and
- opened a new manufacturing facility in Jackson, Mississippi, to better service our existing customers and expand our customer base in Alabama, Mississippi, and Louisiana.





This market, too, is experiencing tremendous consolidation. The prevailing national builders continue to grow and to seek national suppliers for roof trusses, floor components, and wall panels. We are engineering our position as the leading supplier to this market, with our unique ability to supply engineered wood components to national builders for their projects coast-to-coast.

In 1999, Universal saw a 67 percent increase in

sales to this growing market. As we continue to leverage our size and expertise, and as the market demands remain strong, our national strategy for growth in this arena is promising.



Industrial and Agricultural

If ever a market presented immense opportunity for growth and leadership, it is the industrial and

Engineering A Great Place To Work.

With growth projections that call for dozens of new plants and thousands of additional employees in the first decade of the new millennium, Universal Forest Products is focused on creating an enviable workplace — one that takes care of employees' needs and compensates them well, encourages professional development, rewards excellent performance, and provides a safe and stimulating work environment. In this era of labor shortages, it's critical that we attract and retain top people, and grow our management and leadership groups to ensure success for years to come.

To accomplish this, we are engineering our systems to ensure they respond well to employees' needs, and we are designing programs to continue to offer our employees excellent compensation and benefits. That means, for example, offering bilingual training courses to accommodate — and welcome — the growing diversity of our workforce, continually enhancing our benefits package, and providing training to better prepare people for leadership positions.



agricultural market. Any manufacturer or producer of any product – from oranges to beds to garage doors – needs something in which to store and ship the product. Until now, small operators often produced those containers and carriers – and sometimes haphazardly.

Today, Universal Forest Products is bringing to market our experience and expertise with materials, engineering, product development, purchasing,

and distribution to provide customers with innovative and efficient solutions for industrial needs. In the process, we are setting new standards, and using our nationwide presence, our responsive distribution systems, and our sales and service specialists to begin to consolidate this fragmented industry.

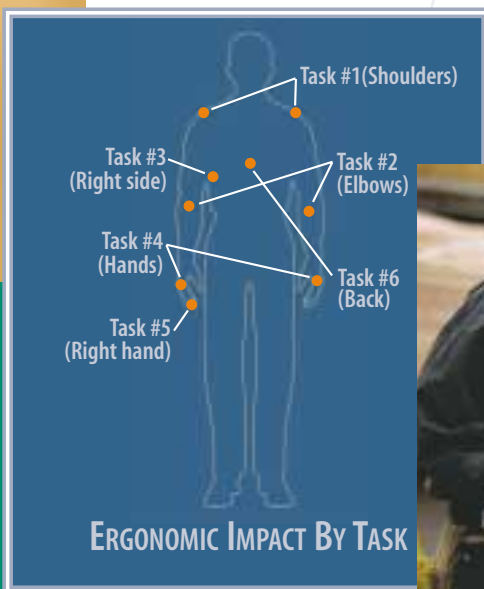
In fact, just a few years ago, Universal committed plants to the manufacture of industrial products on

In 1999, our manufacturing and human resources groups embarked on a pilot project focused on designing jobs and work processes to eliminate repetitive motion, which is the source of many ergonomic-related injuries. The goal is to ensure that our employees are healthy and strong, and to continually reduce costs, direct and indirect, due to injury.

In 1999, we also undertook an extensive employee survey to ensure that we fully understand our people's needs, and respond to those needs as best we can. The

survey resulted in significant enhancements to our benefits package.

Universal continues to offer a stock purchase plan to our employees, a sales incentive program, and a bonus program tied to ROI, which have strong ties to our eagerness to improve bottom-line performance and shareholder value.



an occasional basis, and we had just a handful of sales people focused on industrial sales. But growth in this market has been tremendous, so we have engineered many plants specifically for the production of industrial products. And we have dedicated more than one-fourth of our sales force to the industrial market. These efforts gave rise to an 18 percent increase in industrial sales in 1999 over 1998, and they have positioned Universal as an

emerging leader in this market.

What's more, material that might before have been considered unsuitable for production today often can be used – effectively and less expensively – for quality industrial products.

Bottom Line: Engineering Shareholder Value.

The people of Universal Forest Products own 55 percent of the company's stock, so enhancing shareholder value takes on added meaning. It's critical to us that we serve each of our markets as a world-leading supplier of engineered wood products; it's just as important that we be profitable in the process.

It's why Universal employees – from production workers to office workers, and from new hires to employees with decades of service – are keenly focused on efforts to enhance our processes and products while continually driving down costs.

It's why we nurture long-standing customer and supplier relationships, while we leverage our national presence and strength.

It's why our leadership anticipates trends, and advances strategies that keep us at the forefront of the industries we serve. And why we work hard to ensure that implementing those strategies will maximize efficiency.

It's all about continually enhancing shareholder value. And at Universal Forest Products, we take that personally.



Financial Section

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Five Year Summary of Selected Financial Data

(In thousands, except per share and statistics data.)

	1999	1998	1997	1996	1995
CONSOLIDATED STATEMENT OF EARNINGS DATA					
Net sales	\$1,435,055	\$1,238,907	\$1,066,300	\$ 891,230	\$ 754,466
Gross profit ⁽¹⁾	182,471	149,214	95,478	89,714	75,502
Earnings before income taxes, minority interest and equity in earnings of investee	51,537	43,034	25,982	29,803	23,951
Net earnings	31,448	26,419	16,957	17,832	14,388
Diluted earnings per share	\$1.480	\$1.280	\$0.930	\$0.980	\$0.800
Dividends per share	\$0.075	\$0.070	\$0.065	\$0.060	\$0.105
Weighted average shares outstanding with common stock equivalents	21,186	20,613	18,234	18,121	18,047
CONSOLIDATED BALANCE SHEET DATA					
Working capital	\$ 124,324	\$ 99,559	\$ 89,783	\$ 90,639	\$ 83,533
Total assets	468,638	419,795	229,383	198,866	180,791
Long-term debt and capital lease obligations	154,298	141,880	49,977	55,854	59,209
Shareholders' equity	214,562	191,583	115,898	100,815	84,597
STATISTICS					
Gross profit as a percentage of net sales	12.7%	12.0%	9.0%	10.1%	10.0%
Net earnings as a percentage of net sales	2.2%	2.1%	1.6%	2.0%	1.9%
Return on beginning equity	16.4%	22.8%	16.8%	21.0%	19.7%
Current ratio	2.36	2.21	2.32	3.30	3.38
Debt to equity ratio	0.72	0.74	0.43	0.55	0.70
Book value per common share	\$10.65	\$9.29	\$6.65	\$5.82	\$4.89

(1) In 1995, the Company reclassified delivery expense to include it as a component of cost of goods sold and gross profit.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Risk Factors

In considering whether to buy or sell Universal Forest Products, Inc. (the "Company") securities, carefully consider all the information included in this report and the risk factors described below. In addition, read the discussion under the caption "Forward Outlook," where additional uncertainties associated with the Company's business and certain forward-looking statements are described.

LUMBER MARKET VOLATILITY:

The Company experiences significant fluctuations in the cost of commodity lumber products from primary producers. A variety of factors over which the Company has no control, including government regulations, environmental regulations, weather conditions, economic conditions and natural disasters, impact the cost of lumber products and the Company's selling prices. While the Company attempts to minimize its risk from severe price fluctuations, substantial, prolonged trends in lumber prices can affect the Company's financial results. The Company anticipates that these fluctuations will continue in the future. The Company relies on the Random Lengths composite price (see "Fluctuations in Lumber Prices"), which is a weighted average of nine key framing lumber prices chosen from major producing areas and species, as a broad measure of price movement in the commodity lumber market ("Lumber Market").

COMPETITION:

The Company is subject to competitive selling and pricing pressures in its major markets. While the Company is generally aware of its existing competitors' capabilities, it is subject to entry in its markets by new competitors, which could negatively impact financial results.

MARKET GROWTH:

The Company's sales growth is dependent, in part, upon growth of the markets it serves. If the Company's markets do not achieve anticipated growth, or if the Company fails to maintain its market share, financial results could be impaired. Certain segments of the manufactured housing industry served by the Company have an oversupply of product. The Company expects these segments to reduce production for the first two to three quarters of calendar year 2000. The Company has planned for this modest reduction, but if the manufactured housing industry enters into a prolonged downturn, it could adversely affect the Company's operating results.

ECONOMIC TRENDS:

As a result of its 1998 business combinations in the site-built construction market, management believes the Company's ability to achieve growth in sales and margins has become somewhat more dependent on housing starts. To the extent that housing starts decline significantly in the future, the Company's financial results could be impacted.

BUSINESS COMBINATIONS:

A key component of the Company's growth strategy is to complete business combinations. Business combinations involve inherent risks, including assimilation and successfully managing growth. While the Company conducts extensive due diligence and has taken steps to ensure successful assimilation, factors beyond the Company's control could influence the results of these acquisitions.

CONSOLIDATION:

The Company, like most companies, is witnessing consolidation by its customers. These consolidations will result in a larger portion of the Company's sales being made to some customers. This consolidation may limit the customer base the Company is able to serve.

GOVERNMENT REGULATIONS:

The Company is subject to a variety of government regulations which create a burden on the Company. Should the Company become subject to additional laws and regulations enacted in the future, or changes in interpretation of existing laws, it could result in increased expenses for the Company.

WEATHER CONDITIONS:

The majority of the Company's products are used in outdoor construction activities, therefore its sales volume and profits can be negatively affected by adverse weather conditions in certain geographic markets. In addition, adverse weather conditions in certain regions can negatively impact the Company's operations and consequently its productivity and costs per unit.

Management's Discussion and Analysis of Financial Condition and Results of Operations

SEASONALITY:

Some aspects of the Company's business are seasonal in nature and results of operations vary from quarter to quarter. The Company's treated lumber and outdoor specialty products, such as fencing, decking and lattice, experience the greatest seasonal effects. Sales of treated lumber, primarily consisting of Southern Yellow Pine ("SYP"), also experience the greatest Lumber Market risk. Treated lumber sales are generally at their highest levels between the months of April through August. This sales peak, combined with capacity constraints in the wood treatment process, requires the Company to build its inventory of treated lumber throughout the winter and spring. Since sales prices of treated lumber products are generally indexed to the Lumber Market at the time they are shipped, the Company's profits can be negatively affected by prolonged declines in the Lumber Market during its primary selling season. To mitigate this risk, supply programs are maintained with vendors that are intended to decrease the Company's exposure. These programs include those materials which are most susceptible to adverse changes in the Lumber Market, and also allow the Company to carry a lower investment in inventories.

E-BUSINESS / E-COMMERCE:

While the Company has invested heavily in technology and established electronic business-to-business efficiencies with certain customers and vendors, the willingness of customers and vendors to modify existing distribution strategies poses a potential risk. The Company believes the nature of its products, together with the value-added services the Company provides, ensure that it has a solid position in the supply chain.

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

Fluctuations in Lumber Prices

The following table presents the Random Lengths framing lumber composite price for the years ended December 25, 1999, December 26, 1998 and December 27, 1997:

	Random Lengths Composite Average \$/MBF		
	1999	1998	1997
January	\$370	\$360	\$436
February	386	375	444
March	394	369	433
April	393	369	457
May	421	331	444
June	454	332	430
July	480	345	429
August	404	355	413
September	392	328	393
October	360	329	378
November	385	340	379
December	384	349	370
Annual average	\$402	\$349	\$417
Annual percentage change	15.2%	(16.3%)	3.7%

Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition, an SYP composite price, prepared and used by the Company, is presented below. Sales of products produced using this species comprise up to fifty percent of the Company's sales volume.

		SYP Composite Average \$/MBF	
	1999	1998	1997
January	\$471	\$499	\$488
February	497	525	540
March	513	550	545
April	496	536	572
May	523	474	575
June	563	450	553
July	590	471	577
August	492	439	562
September	473	409	502
October	456	429	464
November	456	422	487
December	484	443	503
Annual average	\$501	\$471	\$531
Annual percentage change	6.4%	(11.3%)	16.2%

Business Combinations

The Company completed the following business combinations in 1997 and 1998 (see Note B to the Financial Statements for further details).

The fiscal year 1997 business combination was accounted for as a pooling of interests, and the fiscal year 1998 business combinations were accounted for using the purchase method:

Company Name	Acquisition Date	Business Description
Consolidated Building Components, Inc. ("CBC")	December 22, 1997	Two facilities in Northwest Pennsylvania. Manufacturer of engineered trusses, wall panels and other products for commercial and residential construction and producers of manufactured homes.
Structural Lumber Products, Inc. ("SLP")	December 29, 1997	Three facilities in Texas. Manufacturer of engineered trusses and wall panels for residential construction.
Shoffner Industries, Inc. ("Shoffner")	March 30, 1998	Fourteen facilities in seven states at the time of acquisition, with headquarters in Burlington, North Carolina. Manufacturer of engineered trusses for commercial and residential construction.
Atlantic General Packaging, Inc. ("AGP")	April 14, 1998	One facility in North Carolina. Manufacturer of specialty wood packaging and industrial products.
Advanced Component Systems, Inc. ("ACS")	April 20, 1998	One facility in Colorado at the time of acquisition. Manufacturer of engineered trusses and distributor of lumber packages to commercial and residential construction.
Industrial Lumber Company, Inc. ("ILC")	June 4, 1998	One facility in California at the time of acquisition. Distributor of cut lumber for packaging and industrial applications.
Nascor Incorporated ("Nascor") - Purchased 59% ownership interest.	November 4, 1998	One facility in Calgary, Alberta, Canada. Manufacturer of engineered trusses, pre-insulated wall panels and I-joists for commercial and residential construction. Licensor of certain I-joist technology.
Pinelli Universal S. de R.L. de C.V. ("Pinelli") - Purchased 45% ownership interest.	December 18, 1998	One facility in Durango, Durango, Mexico. Manufacturer of mouldings and millwork products.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

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

	Years Ended		
	December 25, 1999	December 26, 1998	December 27, 1997
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	87.3	88.0	91.0
Gross profit	12.7	12.0	9.0
Selling, general, and administrative expenses ⁽¹⁾	8.3	7.8	6.2
Earnings from operations	4.4	4.2	2.8
Interest, net	0.8	0.7	0.4
Earnings before income taxes, minority interest and equity in earnings of investee	3.6	3.5	2.4
Income taxes	1.4	1.4	0.8
Earnings before minority interest and equity in earnings of investee	2.2	2.1	1.6
Minority interest	0.0	0.0	0.0
Equity in earnings of investee	0.0	0.0	0.0
Net earnings	2.2%	2.1%	1.6%

(1) 1997 selling, general and administrative expenses include reorganization costs.

NET SALES

The Company engineers, manufactures, treats and distributes lumber and other building products to the do-it-yourself ("DIY"), manufactured housing, wholesale lumber, industrial and conventional site-built construction markets. The Company's strategic sales objectives include:

- Diversifying the Company's end market sales mix by increasing its sales of specialty wood packaging to industrial users and engineered wood products to the site-built construction market. Engineered wood products include roof trusses, wall panels and engineered floor systems.
- Increasing sales of "value-added" products. Value-added product sales consist of fencing, decking, lattice and other specialty products sold to the DIY market; roof trusses sold to producers of manufactured homes; specialty wood packaging; and engineered wood products. A long-term goal of the Company is to achieve a ratio of value-added sales to total sales of at least 50%. Although the Company considers the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently considered a component of value-added sales.
- Maximizing profitable top-line sales growth while increasing DIY market share.
- Maintaining manufactured housing market share.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In order to measure its progress toward attaining these objectives, management analyzes the following financial data:

- Sales by market classification.
- The percentage change in sales attributable to changes in overall selling prices versus changes in the quantity of units shipped.
- The ratio of value-added product sales to total sales.

This information is presented in the tables and narrative that follow.

The following table presents, for the periods indicated, the Company's net sales (in thousands) and percentage of total net sales by market classification.

Market Classification	Years Ended					
	December 25, 1999	%	December 26, 1998	%	December 27, 1997	%
DIY	\$ 650,859	45.4	\$ 562,622	45.4	\$ 499,195	46.8
Manufactured Housing	398,237	27.8	401,679	32.4	406,986	38.2
Site-Built Construction	212,479	14.8	127,550	10.3	20,629	1.9
Industrial	95,468	6.6	76,817	6.2	64,562	6.1
Wholesale Lumber	78,012	5.4	70,239	5.7	74,928	7.0
Total	\$1,435,055	100.0	\$1,238,907	100.0	\$1,066,300	100.0

The following table estimates, for the periods indicated, the Company's percentage change in net sales which were attributable to changes in overall selling prices versus changes in units shipped.

	% Change		
	in Sales	in Selling Prices	in Units
1999 versus 1998	+16%	+4%	+12%
1998 versus 1997	+16%	-8%	+24%
1997 versus 1996	+20%	+6%	+14%

The Company estimates that only 4% of its net sales increase was attributable to overall selling price increases in 1999 compared to 1998, despite an overall Lumber Market that was 15% higher on average during the same period. This was primarily due to the fact that approximately 50% of the Company's sales are comprised of products produced using SYP, which was 6% higher on average in 1999 compared to 1998. In addition, selling prices of the Company's value-added products do not necessarily correlate with the Lumber Market.

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

	Value-Added	Commodity-Based
1999	38.0%	62.0%
1998	38.8%	61.2%
1997	28.6%	71.4%

The decrease in the Company's ratio of value-added sales to total sales in 1999 compared to 1998 is primarily due to a significant increase in sales of treated lumber in 1999, which exceeded increases in sales of engineered wood products and specialty wood packaging.



Management's Discussion and Analysis of Financial Condition and Results of Operations

DIY Market:

Do-It-Yourself Retailing, in its November 1999 edition, estimated a 9.9% increase in total retail sales by home improvement retailers comparing 1999 with 1998. The magazine also estimated a compounded annual growth rate ("CAGR") from 1997 to 1999 of 7.7%, while the Company realized a 15.8% CAGR in sales to this market during the period. The Company has strong relationships with several national retail customers, the most significant of which is its long standing relationship with The Home Depot. The Company has developed these relationships due to its ability to provide quality products and a high level of service at competitive prices. As this market segment has continued to consolidate, certain national retail customers have captured additional market share and the Company has in turn increased its market share.

Net sales to the DIY market increased \$88 million, or 15.7%, in 1999 compared to 1998, primarily due to an increase in unit sales of treated lumber combined with an overall increase in selling prices due to the level of the Lumber Market. The increase in treated lumber sales was primarily due to additional treating facilities which commenced operations during the first quarter of 1999. These sales increases were offset somewhat by a reduction in sales to three national customers. The decrease in sales to two of these customers was due to a decline in their financial positions, and the decrease in business with the third customer was due to competitive factors. Sales to the Company's largest customer increased 55.1% in 1999 compared to 1998 as the consolidation within the DIY market continues.

Net sales to the DIY market increased \$63 million, or 12.7%, in 1998 compared to 1997. Over \$51 million of this increase was due to sales generated by business acquisitions completed throughout 1998. At the end of 1997 and throughout 1998, the Company acquired manufacturers of engineered wood products used in site-built construction. A portion of these products are sold through certain retail customers and are considered DIY sales by the Company. In addition, the Company's existing plants increased their unit sales to the DIY market despite a 16% decrease in the Lumber Market.

Manufactured Housing Market:

Net sales to the manufactured housing market decreased \$3 million, or 0.9%, in 1999 compared to 1998, primarily due to a decrease in sales to the Company's two largest customers in this market. These customers had an oversupply of finished homes at the retail level in the last six months of 1999, and as a result, dramatically curtailed their production of new homes. The decrease in sales to these accounts was partially offset by increased sales to several accounts and an increase in overall selling prices due to the effect of the higher Lumber Market. Management expects the oversupply of inventory in certain segments of the industry to negatively impact its sales to this market for the first two to three quarters of calendar year 2000.

Net sales to the manufactured housing market decreased \$5 million, or 1.3%, in 1998 compared to 1997, due to a decline in overall selling prices, partially offset by an increase in unit sales. Overall selling prices to this market decreased as a result of the lower level of the Lumber Market in 1998 compared to 1997. The increase in unit sales resulted from CBC, which merged with the Company at the end of 1997, and which increased its sales to this market in 1998.

Site-Built Construction Market:

Net sales to the site-built construction market increased approximately \$85 million, or 66.6%, in 1999 compared to 1998, due to the effect of operating businesses acquired in 1998 (see "Business Combinations") for a complete year in 1999. In addition, these businesses, which include Nascor, Shoffner, ACS and SLP, experienced an increase in same period sales due to a combination of strong housing markets, increased market share in their respective regions, and an increase in selling prices due to the effect of the higher Lumber Market.

Sales to the site-built construction market increased \$107 million in 1998 compared to 1997, due to the Company's acquisitions of SLP, Shoffner and ACS. Sales to this market in 1997 represent those of CBC, whose results were pooled with the Company.

Industrial Market:

Net sales to the industrial market increased \$19 million, or 24.3%, in 1999 compared to 1998, primarily due to the acquisition of ILC and increased market share by several existing plants in the Company's Far West Region. The Company continues to pursue market share growth in this fragmented industry through an internal growth strategy. The Company has organized a national sales and marketing group, established a sales incentive program to motivate employees and continues to increase production capacity to take advantage of market opportunities.

Net sales to the industrial market increased \$12 million, or 19.0%, in 1998 compared to 1997, primarily due to the acquisitions of AGP and ILC in 1998.

Wholesale Market:

Net sales to the wholesale market increased \$8 million, or 11.1%, in 1999 compared to 1998, due to increased unit sales combined with an increase in selling prices due to the effect of the higher Lumber Market. Although increasing sales to the wholesale market is not a strategic objective, the Company continues to supply its existing customers and take advantage of opportunities for profitable new business.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Net sales to the wholesale market decreased \$5 million, or 6.3%, in 1998 compared to 1997, primarily due to a decrease in selling prices attributable to the lower level of the Lumber Market in 1998 compared to 1997.

COST OF GOODS SOLD AND GROSS PROFIT

Gross profit as a percentage of net sales increased to 12.7% in 1999, compared to 12.0% in 1998. This increase was primarily due to the following factors:

- An increase in sales of engineered wood products, primarily due to operating businesses acquired in 1998 for a complete year combined with an increase in same period sales by these businesses.
- An increase in sales and improved gross margins on sales of specialty wood packaging and components to the industrial market.
- These increases were offset partially by a decrease in sales of fencing and lattice products in certain regions of the country due to competitive factors.

Gross profit as a percentage of net sales increased to 12.0% in 1998 compared to 9.0% in 1997. This increase was primarily due to the following factors:

- An increase in sales of engineered wood products, fencing, specialty wood packaging and components.
- An improvement in results from sales of trusses to the manufactured housing industry over historically low levels recognized in 1997.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") increased \$23 million, or 23.3%, comparing 1999 with 1998. This increase was primarily due to:

- Expenses added through business acquisitions and other new operations totaling \$12.2 million in 1999.
- An increase in selling and administrative headcount and travel costs to support the growth of the business and to pursue strategic initiatives.
- Continuing to form its national Sales, Marketing, and Manufacturing Departments to execute strategic growth and profitability initiatives.
- A one-time charge to write-off a cumulative translation adjustment related to the permanent shutdown of a wholly-owned Mexican subsidiary.
- An increase in incentive compensation expenses tied to profitability and return on investment objectives.
- Increases in certain variable selling and marketing expenses tied to sales.

SG&A increased \$33 million, or 51.8%, comparing 1998 with 1997. This increase was primarily due to:

- Expenses added through business acquisitions and other new operations. The SG&A of these operations totaled \$24 million in 1998.
- An increase in selling and administrative headcount to support the growth of the business.
- An increase in incentive compensation expenses tied to profitability and return on investment objectives.
- Increases in certain variable selling and marketing expenses tied to sales.

INTEREST, NET

Net interest costs increased approximately \$2 million in 1999 compared to 1998, due to a higher average debt balance attributable to having acquisition related debt for a complete year in 1999 and increased working capital requirements in 1999. In addition, the Company recognized a higher borrowing rate on debt in 1999 compared to 1998 as a result of extending its maturities on acquisition related debt. Acquisitions were initially financed using one-year uncommitted credit lines in 1998. This debt was refinanced with senior notes having bullet maturities ranging from seven to ten years at the end of 1998.

Net interest costs increased approximately \$5 million in 1998 compared to 1997, primarily due to acquisition related debt which totaled approximately \$98 million in 1998.

INCOME TAXES

The Company's effective tax rate was 38.7% in 1999 compared to 38.6% in 1998. Effective tax rates differ from statutory federal income tax rates, primarily due to:

- Provisions for state and local income taxes.
- Permanent tax differences.



Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company recognized a slightly higher effective tax rate in 1999 due to an increase in state and local income taxes offset by a reduction in a valuation allowance related to a deferred tax asset of Nascor.

The Company's effective tax rate was 38.6% in 1998 compared to 34.7% in 1997. The Company recognized a comparatively higher effective tax rate in 1998 due to an increase in state and local income taxes combined with a permanent tax difference related to an acquisition. The Company's 1997 effective tax rate was unusually low due to the effect of pooling the pre-tax earnings of CBC (a former S-Corporation) in 1997.

Liquidity and Capital Resources

Cash flows from operating activities totaled \$33 million in 1999 compared to \$67 million in 1998. The effect of changes in inventory levels resulted in a \$43 million decrease in operating cash flow comparing 1999 with 1998. Inventory increased \$23 million from December 1998 to December 1999 due to a higher Lumber Market at the end of 1999 compared to 1998, and increased inventory associated with new business with the Company's largest customer. Conversely, inventory decreased \$20 million from December 1997 to December 1998 due to a significant decline in the Lumber Market. The \$43 million decrease was offset by increases in net earnings, depreciation expense and accounts payable at the end of 1999 versus 1998.

Due to the seasonality of its business and the effects of the Lumber Market, management believes the Company's cash cycle (days sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of its working capital management. The Company's cash cycle decreased to 42.6 days in 1999 from 46.0 days in 1998. This decrease is primarily due to extended payment terms with several vendors and improved inventory management in 1999. These positive factors were offset somewhat by a slight increase in days sales outstanding, primarily due to the payment terms within the site-built construction industry.

Capital expenditures totaled \$35.4 million in 1999 compared to \$28.4 million in 1998. This increase was primarily due to expenditures related to new facilities acquired during 1999. Investments associated with new facilities totaled \$23.8 million in 1999 compared to \$12.0 million in 1998. On December 25, 1999, outstanding purchase commitments on capital projects totaled \$9.2 million. The Company intends to satisfy these commitments utilizing its revolving credit facility.

Although the Company increased its capital expenditures for new facilities as part of its internal growth strategy, it did not complete any business acquisitions during 1999. Management continues to focus on assimilating the acquisitions it completed in 1998, while also investigating other potential targets.

Cash flows from financing activities totaled less than \$1.0 million in 1999 compared to \$59.3 million in 1998. The decrease was due to the absence of business acquisitions in 1999, offset by greater working capital requirements and an increase in capital expenditures. In addition, the Company repurchased 677,801 shares of common stock at a total cost of approximately \$10.5 million in 1999.

On December 25, 1999, the Company had \$11.8 million outstanding on its \$175 million revolving credit facility. Financial covenants on the Company's revolving credit facility and senior unsecured notes include a minimum net worth requirement, a minimum interest coverage test and a maximum leverage ratio. The Company is well within its requirements at December 25, 1999.

Environmental Considerations and Regulations

The Company is self-insured for environmental impairment liability, and accrues for the estimated cost of monitoring or remediation activities. The Company owns and/or operates 20 wood preserving facilities throughout the United States that treat lumber products with a chemical preservative. In accordance with applicable federal, state and local environmental laws, ordinances and regulations, the Company may be potentially liable for costs and expenses related to the environmental condition of the Company's real property. The Company has established reserves for remediation activities at its North East, MD; Union City, GA; Stockertown, PA; Elizabeth City, NC; Auburndale, FL; and Schertz, TX facilities. Remediation activities at the Granger, IN facility were completed in the second quarter of 1999. Other than minimal costs to dismantle the remediation network, no other costs are expected at the Granger, IN facility in the future.

The Company has accrued, in other long-term liabilities, amounts totaling \$2.4 million and \$2.3 million on December 25, 1999 and December 26, 1998, respectively, for the activities described above. The Company has increased its accrual due to monitoring and testing which will be required at the Company's Auburndale, FL facility. Management believes the potential future costs of known remediation efforts will not have a material adverse effect on its future financial position, results of operations or liquidity.

Forward Outlook

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

PERFORMANCE 2002

In 1997, the Company concluded its annual planning efforts and announced its goals for growth and diversification entitled Performance 2002. The goals called for the Company to double its sales by the fiscal year ending 2002 while maintaining or achieving a leadership position in the four markets that consume the vast majority of wood fiber in the United States. The Company's sales goals by market and a summary of the Company's progress towards achieving these goals are as follows (in millions):

	Targeted Sales in 2002	Actual Sales in 1999	Targeted 3-Year CAGR
DIY	\$1,000	\$ 651	15%
Manufactured Housing	500	398	8%
Site-Built Construction	250	213	5%
Industrial and Other	250	173	13%
Total	\$2,000	\$1,435	12%

DIY MARKET

Do-It-Yourself Retailing, in its November 1999 edition, forecasted the following total retail sales for home improvement retailers for 2000 through 2002 (in billions), which results in a CAGR of 3% from 1999 sales of \$159.7 billion. The Company has no means of ascertaining the accuracy of this industry-wide projection, and actual results could vary significantly.

2000	\$165.8
2001	\$171.0
2002	\$175.0

The consolidation within the DIY industry continued in 1999 as top performers obtained additional market share. The Company feels it is in a position to continue to capitalize on these industry conditions as a result of its national presence, service capabilities that meet stringent customer requirements and diversified product offerings. The Company's goal is to continue to increase market share with an emphasis on new value-added products, including engineered wood products.

MANUFACTURED HOUSING MARKET

Manufactured Home Merchandiser, in its January 2000 edition, forecasted a decrease of industry shipments to retailers of over 4% in 2000 due to an oversupply of finished homes at the retail level. The Company has no means of ascertaining the accuracy of this industry-wide projection, and actual results could vary significantly. The Company has positioned itself to handle a short-term reduction in volume, but should the manufactured housing industry enter into a prolonged downturn, it could adversely affect the Company's operating results.

Management believes the manufactured housing industry's oversupply of inventory will continue to negatively impact the Company's sales for the next two or three quarters. However, it also believes this situation is temporary and the industry will return to its moderate long term growth as manufactured homes continue to be an attractive alternative to conventional homes as a result of their affordability, quality and the availability of conventional long-term financing. Management believes the Company may also have market share growth opportunities involving the sale of new value-added products to these customers.

SITE-BUILT CONSTRUCTION MARKET

The Company entered into this market primarily through acquisition and has continued its growth initiatives in this market by opening several new facilities in 1999. As a result of these actions, the Company has become one of the largest manufacturers of engineered wood products in the United States while operating 26 facilities in 13 states. Management plans to continue to grow its market share by adding production capacity to existing facilities, opening new plants and continuing to pursue business acquisitions in order to enter key geographic markets.

The National Association of Home Builders published forecasted annual housing starts of 1,660,000, 1,535,000 and 1,540,000 for 2000, 2001 and 2002, respectively.



Management's Discussion and Analysis of Financial Condition and Results of Operations

Housing starts are expected to have reached peak levels in 1999 while having increased 2.2% from 1998. Despite a forecasted decrease in housing starts from this peak level, management believes the sale of engineered wood products will continue to grow. *The Freedonia Group*, in its Industry Study 979, forecasted a 7% CAGR in the sale of engineered wood components through the year 2002 because of the benefits these products provide builders over traditional carpentry methods employed on the job site. Some of these benefits include cost advantages through more efficient labor and better material utilization, faster home construction and improved product quality. In addition, this market is consolidating as large production-oriented builders continue to take more market share. Management believes the Company's geographic presence and national sales efforts will allow it to increase market share as well.

INDUSTRIAL MARKET

A key strategic objective of the Company is to increase its sales of wood packaging products to industrial users. A majority of these sales are value-added products which are often produced from the offal of the Company's other products, providing better overall utilization of wood fiber. In addition, this market is typically less seasonal and requires the use of a lower quality range of wood fiber grades which, coupled with the Company's purchase of higher grades for the other markets described above, makes the Company a more valued customer to its mill suppliers. The Company plans to continue to obtain market share through an internal growth strategy utilizing its current manufacturing capabilities while continuing to look for strategic acquisitions in this market which meet the Company's criteria. In addition, the Company has positioned itself to utilize its available sales force and production capacity to grow its business in this market while mitigating the expected affect of the temporary downturn in the manufactured housing market.

GROSS PROFIT

Management believes the following factors may impact the Company's future gross profits:

- The Company has a long-term goal of increasing its ratio of value-added sales to total sales to 50%, which in turn should increase gross margins. Management believes its acquisition and internal sales growth strategies will help it continue to make progress toward this objective. Achievement of this goal is dependent, in part, upon certain factors that are beyond the control of management.
- Decreased demand in the manufactured housing market due to an oversupply of homes at the retail level may have a negative effect on the Company's gross profit in the year 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A costs have increased as a percentage of sales in recent years primarily due to acquisitions of engineered wood product manufacturers which have extensive engineering and design costs and costs associated with creating new national sales, marketing and manufacturing departments to execute key strategic initiatives. SG&A costs as a percentage of sales may continue to increase in the future as engineered wood products and specialty wood packaging become a greater percentage of the Company's total business. However, management strives to achieve economies of scale in other administrative departments as sales growth objectives are met.

LIQUIDITY AND CAPITAL RESOURCES

Management expects to spend between \$28 million and \$32 million on capital expenditures in 2000. Besides "maintenance" capital expenditures totaling approximately \$10 million, the Company plans to spend approximately \$12 million to upgrade or expand the production capacity of its existing plants, and approximately \$8 million on new operations in key markets. In addition, the Company plans to continue to execute its acquisition strategy in 2000, and will consider issuing additional long-term debt and/or common stock as part of a transaction.

In 2000, the Company has no present intention to change its current, semi-annual dividend policy of \$0.040 per share. The Company also has the ability to repurchase approximately 1.1 million shares of its common stock under a share repurchase program approved by the Board of Directors. While it is the Company's primary objective to invest in the profitable growth of the business, it may repurchase shares of its common stock from time to time. In addition, the Company is obligated to pay amounts due on long-term debt totaling approximately \$7.4 million.

The Company has a \$175 million revolving credit facility used to fund seasonal working capital requirements and growth. Management believes its peak seasonal working capital requirements are expected to consume \$65 million to \$75 million of this availability during the period from April through May. The Company will finance its remaining capital requirements to support its Performance 2002 growth objectives by using its revolving credit facility, issuing additional long-term debt or common stock or by using a combination of these methods.

Independent Auditors' Report

Board of Directors

Universal Forest Products, Inc.

Grand Rapids, Michigan

We have audited the accompanying consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries as of December 25, 1999 and December 26, 1998, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three fiscal years in the period ended December 25, 1999. 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 generally accepted auditing standards. 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 25, 1999 and December 26, 1998, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 25, 1999, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Grand Rapids, Michigan

January 24, 2000

Consolidated Balance Sheets

(In thousands, except share data.)		Note	December 25, 1999	December 26, 1998
Assets				
CURRENT ASSETS:				
Cash and cash equivalents	B		\$ 4,106	\$ 920
Accounts receivable (net of allowance for doubtful accounts of \$1,379 and \$3,540)	B		70,012	62,711
Inventories:				
Raw materials	B		44,722	36,856
Finished goods	B		86,813	71,543
			131,535	108,399
Other current assets	B		1,354	2,911
Prepaid income taxes	L		3,416	2,625
Deferred income taxes	B, L		5,083	4,011
TOTAL CURRENT ASSETS			215,506	181,577
OTHER ASSETS	B, F, J		10,836	10,680
GOODWILL AND NON-COMPETE AGREEMENTS, NET	B		93,183	96,222
PROPERTY, PLANT AND EQUIPMENT:				
Land and improvements	B, E		28,320	24,363
Buildings and improvements	B, E		78,926	70,091
Machinery, equipment and office furniture	B, E		102,282	83,722
Construction in progress			13,214	14,529
			222,742	192,705
Less accumulated depreciation and amortization	B, E		(73,629)	(61,389)
PROPERTY, PLANT AND EQUIPMENT, NET			149,113	131,316
TOTAL ASSETS			\$468,638	\$419,795

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands, except share data.)	Note	December 25, 1999	December 26, 1998
Liabilities and Shareholders' Equity			
CURRENT LIABILITIES:			
Short-term debt	B, D	\$ 1,520	\$ 1,997
Accounts payable	B	46,621	38,751
Accrued liabilities:			
Compensation and benefits	B, K	32,491	28,025
Other	B, C	3,148	3,485
Current portion of long-term debt and capital lease obligations	B, D, E	7,402	9,760
TOTAL CURRENT LIABILITIES		91,182	82,018
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	B, D, E	146,896	132,120
DEFERRED INCOME TAXES	B, L	8,398	8,100
OTHER LIABILITIES	F, M	7,600	5,974
COMMITMENTS AND CONTINGENCIES	M		
TOTAL LIABILITIES		254,076	228,212
SHAREHOLDERS' EQUITY:			
Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none			
Common stock, no par value; shares authorized 40,000,000; issued and outstanding, 20,212,385 and 20,710,263	B, G, H	20,212	20,710
Additional paid-in capital	B, G	78,625	77,526
Retained earnings	B	115,327	95,221
Accumulated other comprehensive earnings		1,033	(1,072)
		215,197	192,385
Officers' stock notes receivable	I	(635)	(802)
TOTAL SHAREHOLDERS' EQUITY		214,562	191,583
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$468,638	\$419,795

See notes to consolidated financial statements.

Consolidated Statements of Earnings

(In thousands, except per share data.)	Note	Year Ended		
		December 25, 1999	December 26, 1998	December 27, 1997
NET SALES	B	\$1,435,055	\$1,238,907	\$1,066,300
COST OF GOODS SOLD	B, E, K	1,252,584	1,089,693	970,822
GROSS PROFIT		182,471	149,214	95,478
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	B, E, J, K	119,673	97,065	63,925
REORGANIZATION COSTS	C			1,698
EARNINGS FROM OPERATIONS		62,798	52,149	29,855
INTEREST, NET:				
Interest expense	B, D	11,853	9,506	4,305
Interest income	I	(592)	(391)	(432)
		11,261	9,115	3,873
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND EQUITY IN EARNINGS OF INVESTEE		51,537	43,034	25,982
INCOME TAXES	B, L	19,955	16,615	9,025
EARNINGS BEFORE MINORITY INTEREST AND EQUITY IN EARNINGS OF INVESTEE		31,582	26,419	16,957
MINORITY INTEREST	B	(701)		
EQUITY IN EARNINGS OF INVESTEE	B	567		
NET EARNINGS		\$ 31,448	\$ 26,419	\$ 16,957
EARNINGS PER SHARE - BASIC		\$ 1.52	\$ 1.33	\$ 0.97
EARNINGS PER SHARE - DILUTED		\$ 1.48	\$ 1.28	\$ 0.93
WEIGHTED AVERAGE SHARES OUTSTANDING	B	20,637	19,917	17,528
WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS	B	21,186	20,613	18,234

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In thousands, except share and per share data.)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Officers' Stock Notes Receivable	Total
Balance at December 28, 1996	\$ 17,438	\$ 28,446	\$ 56,426	(\$ 830)	(\$ 665)	\$100,815
Comprehensive earnings:						
Net earnings			16,957			
Foreign currency translation adjustment				(52)		
Total comprehensive earnings						16,905
Cash dividends - \$.065 per share			(1,116)			(1,116)
CBC shareholder distributions			(978)			(978)
Issuance of 186,452 shares	187	426				613
Repurchase of 82,502 shares	(83)		(1,036)			(1,119)
Tax benefits from non-qualified stock options exercised		613				613
Issuance of officers' stock notes receivable	30	370			(400)	0
Payments received on officers' stock notes receivable					165	165
Balance at December 27, 1997	\$ 17,572	\$ 29,855	\$ 70,253	(\$ 882)	(\$ 900)	\$115,898
Comprehensive earnings:						
Net earnings			26,419			
Foreign currency translation adjustment				(190)		
Total comprehensive earnings						26,229
Cash dividends - \$.070 per share			(1,451)			(1,451)
Final settlement of CBC acquisition	(17)	(218)				(235)
Issuance of 3,154,866 shares	3,155	47,889				51,044
Payments received on officers' stock notes receivable					98	98
Balance at December 26, 1998	\$ 20,710	\$ 77,526	\$ 95,221	(\$ 1,072)	(\$ 802)	\$191,583
Comprehensive earnings:						
Net earnings			31,448			
Foreign currency translation adjustment				2,105		
Total comprehensive earnings						33,553
Cash dividends - \$.075 per share			(1,539)			(1,539)
Issuance of 179,923 shares	180	802				982
Repurchase of 677,801 shares	(678)		(9,803)			(10,481)
Tax benefits from non-qualified stock options exercised		297				297
Payments received on officers' stock notes receivable					167	167
Balance at December 25, 1999	\$ 20,212	\$ 78,625	\$115,327	\$ 1,033	(\$ 635)	\$214,562

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

		Year Ended		
(In thousands.)	Note	December 25, 1999	December 26, 1998	December 27, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net earnings	B	\$ 31,448	\$ 26,419	\$ 16,957
Adjustments to reconcile net earnings to net cash from operating activities:				
Depreciation	E	14,885	12,584	9,515
Amortization of non-compete agreements and goodwill	B	3,270	2,464	527
Deferred income taxes	B, L	(774)	1,292	(578)
Loss on sale of property, plant and equipment		489	422	683
Changes in:				
Accounts receivable	B	(7,300)	(5,698)	(1,974)
Inventories	B	(23,136)	20,093	(20,767)
Other	B	1,647	213	25
Accounts payable	B	7,870	(1,504)	18,851
Accrued liabilities	B	4,129	10,294	(4,157)
NET CASH FROM OPERATING ACTIVITIES		32,528	66,579	19,082
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment	B	(35,418)	(28,433)	(13,631)
Acquisitions, net of cash received	B		(98,167)	
Proceeds from sale of property, plant and equipment	B	2,247	1,688	380
Advances on notes receivable	B	(139)	(3,200)	
Collection of notes receivable	I	3,431	377	618
Purchases of other assets		(87)	(370)	(205)
NET CASH FROM INVESTING ACTIVITIES		(29,966)	(128,105)	(12,838)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings (repayments) of notes payable and revolving credit facilities	B, D	(5,056)	11,880	4,500
Proceeds from issuance of long-term debt, net	B, D	27,502	80,304	
Repayment of long-term debt	B, D	(10,744)	(31,952)	(6,312)
Proceeds from issuance of common stock	G, H	942	508	608
Dividends paid to shareholders		(1,539)	(1,451)	(1,116)
Repurchase of common stock	G	(10,481)		(1,119)
CBC shareholder distributions	B			(978)
NET CASH FROM FINANCING ACTIVITIES		624	59,289	(4,417)
NET CHANGE IN CASH AND CASH EQUIVALENTS		3,186	(2,237)	1,827
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		920	3,157	1,330
CASH AND CASH EQUIVALENTS, END OF YEAR		\$ 4,106	\$ 920	\$ 3,157

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (continued)

		Year Ended		
(In thousands.)	Note	December 25, 1999	December 26, 1998	December 27, 1997
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest	D	\$ 11,760	\$ 9,407	\$ 4,347
Income taxes	L	20,746	14,815	12,934
NON-CASH INVESTING ACTIVITIES:				
Note payable issued in exchange for non-compete agreements	B		2,462	
Note payable issued in business combination	B		857	
Property, plant and equipment acquired through capital leases	E	255	181	
Fair market value of common stock issued in business combinations	B		50,509	
Officers' stock notes receivable	I			400
NON-CASH FINANCING ACTIVITIES:				
Inventory exchanged for a note receivable			1,040	

See notes to consolidated financial statements.



Notes to Consolidated Financial Statements

Note A. Summary of Significant Accounting Policies

OPERATIONS

Universal Forest Products, Inc. (the "Company") engineers, manufactures, treats and distributes lumber products for the do-it-yourself, manufactured housing, industrial, wholesale and site-built construction markets. The Company's principal products are preservative-treated wood, remanufactured lumber, lattice, fence panels, deck components, specialty packaging, engineered trusses, wall panels, I-joists and other building products.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries and partnerships. All significant intercompany transactions and balances have been eliminated. The equity method of accounting is used for the Company's 50% or less owned affiliates over which the Company has the ability to exercise significant influence.

FISCAL YEAR

The Company's fiscal year is a 52 or 53 week period, ending on the last Saturday of December. Unless otherwise stated, references to 1999, 1998 and 1997 relate to the fiscal years ended December 25, 1999, December 26, 1998 and December 27, 1997, respectively. Each of these fiscal years were comprised of 52 weeks.

FAIR VALUE DISCLOSURES OF FINANCIAL INSTRUMENTS

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

The fair value estimates presented herein are based on pertinent information available to management as of December 25, 1999. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Management believes its estimates to be reasonable, however, actual results could differ from these estimates.

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.

INVENTORIES

Inventories are stated at the lower of average cost or market. 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.

Notes to Consolidated Financial Statements

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

Buildings and improvements	15 to 31.5 years
Land improvements	5 to 15 years
Machinery and equipment	3 to 8 years
Office furniture	5 to 8 years

FOREIGN CURRENCY TRANSLATION

With the exception of its operations in Mexico, the financial statements of the Company's foreign operations are translated into U.S. dollars at current rates of exchange, with gains or losses included as a separate component of shareholders' equity. Prior to January 1999, due to the hyper-inflationary state of the Mexican economy, the financial statements of the Mexican operations were translated at either current or historical exchange rates, as appropriate. These adjustments, along with gains or losses resulting from foreign currency transactions were not material in 1999, 1998 or 1997, and are reflected in earnings from operations.

Effective January 1999, Mexico was no longer considered a highly inflationary economy, and the Company began translating the financial statements of its Mexican operations using current rates of exchange.

INCOME TAXES

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases 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 applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

REVENUE RECOGNITION AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Revenue is recognized at the time the product is shipped to the customer. The Company accrues for bad debt expense based on its history of accounts receivable write-offs to sales. Individual accounts receivable balances are evaluated on a monthly basis, and those balances considered to be uncollectible are charged to the allowance. Collections of amounts previously written off are recorded as an increase to the allowance. Bad debt expense amounted to approximately \$858,000, \$515,000 and \$728,000, for 1999, 1998 and 1997, respectively.

EARNINGS PER COMMON SHARE

Basic earnings per share ("EPS") is calculated based on the weighted average number of common shares outstanding during the periods presented. Diluted EPS is calculated based on the weighted average number of common and common equivalent shares outstanding during the periods presented, giving effect to stock options granted in 1993, 1998 and 1999 (see Note H) utilizing the "treasury stock" method.

Notes to Consolidated Financial Statements

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

	1999			1998			1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Earnings	\$31,448			\$26,419			\$16,957		
EPS - Basic									
Income available to common stockholders	31,448	20,637	\$1.52	26,419	19,917	\$1.33	16,957	17,528	\$0.97
Effect of Dilutive Securities									
Options		549			696			706	
Diluted EPS									
Income available to common stockholders and assumed options exercised	\$31,448	21,186	\$1.48	\$26,419	20,613	\$1.28	\$16,957	18,234	\$0.93

Options to purchase 509,600 shares of common stock at exercise prices ranging from \$18.25 to \$36.01 were outstanding at December 25, 1999, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common stock and, therefore, would be antidilutive.

STOCK-BASED COMPENSATION

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," and as permitted by this Standard, continues to apply the recognition and measurement principles of Accounting Principles Board Opinion No. 25 to its stock-based compensation (see Note H).

RECLASSIFICATIONS

Certain reclassifications have been made in the 1997 and 1998 consolidated financial statements to conform to the classifications used in 1999.

Note B. Business Combinations

On December 22, 1997, a subsidiary of the Company completed a merger with Consolidated Building Components, Inc. ("CBC"), a manufacturer of engineered trusses, wall panels and other products for commercial and residential builders and producers of manufactured homes. CBC operates two plants in Northwest Pennsylvania. The Company issued 398,000 shares of its common stock in exchange for all of the stock of CBC. This transaction was accounted for as a pooling of interests. CBC's shareholders had elected to be taxed as an S-Corporation; therefore, no provision for federal or state income taxes was included in CBC's financial statements for 1997. A provision for deferred taxes was recorded by the Company on December 27, 1997 for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future.

Notes to Consolidated Financial Statements

Each of the following business combinations have been accounted for as a purchase. Accordingly, in each instance, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair market values at the date of acquisition. Any excess of the purchase price over the fair value of the acquired assets and assumed liabilities was recorded as goodwill in each transaction. The Company has amortized goodwill on a straight-line basis over 40 years. Non-compete agreements are amortized on a straight-line basis over the term of the agreements. The results of operations of each acquisition is included in the Company's consolidated financial statements since the date it was acquired.

On December 29, 1997, a partnership of the Company acquired substantially all of the assets of Structural Lumber Products, Inc. ("SLP"), a manufacturer of engineered trusses and wall panels for residential builders. SLP operated plants in San Antonio, Austin and Dallas, Texas at the time of acquisition. The total purchase price of the transaction was \$18.5 million, initially funded through the Company's lines of credit. The excess of the purchase price over the estimated fair value of the acquired assets was \$12.7 million.

On March 30, 1998, a subsidiary of the Company acquired 100% of the outstanding shares of Shoffner Industries, Inc. ("Shoffner") in exchange for \$41.1 million in cash, initially funded through the Company's lines of credit, and 3 million shares of the Company's common stock. Shoffner is a manufacturer of engineered roof and floor trusses for commercial and residential builders with 14 facilities in 7 states at the time of acquisition. The excess of the purchase price over the estimated fair value of the acquired assets and liabilities assumed was \$66.6 million.

On April 14, 1998, a subsidiary of the Company acquired substantially all of the assets and assumed certain liabilities of Atlantic General Packaging, Inc. ("AGP"), a manufacturer of specialty wood packaging products. AGP operates one facility in Warrenton, North Carolina. The total purchase price for the net assets of AGP consisted of cash of \$1.0 million, a note payable of \$857,000, and 57,950 shares of the Company's common stock.

On April 20, 1998, a subsidiary of the Company acquired substantially all of the assets and assumed certain liabilities of Advanced Component Systems, Inc. ("ACS"), a manufacturer of engineered trusses for commercial and residential builders. ACS operated one facility in Lafayette, Colorado at the time of acquisition. The total purchase price for the net assets of ACS was \$27.0 million of cash, initially funded through the Company's lines of credit. The excess of the purchase price over the estimated fair value of the acquired assets and liabilities assumed was \$10.6 million.

On June 4, 1998, a subsidiary of the Company acquired substantially all of the assets of Industrial Lumber Company, Inc. ("ILC"), a distributor of low grade cut lumber for packaging. The total purchase price for the net assets of ILC consisted of \$3.0 million in cash, initially funded through the Company's lines of credit. The Company also exchanged notes payable totaling \$2.2 million for non-compete agreements.

On November 4, 1998, a subsidiary of the Company acquired 59% of the outstanding shares of Nascor Incorporated ("Nascor"), a manufacturer of engineered trusses, pre-insulated wall panels and I-joists, and a licensor of certain I-joist technology. Nascor operates out of a single facility in Calgary, Alberta. The Company exchanged \$2.8 million for 5,552,500 shares of Nascor's outstanding common stock. The transaction was initially funded through the Company's revolving credit facility. The excess of the purchase price over the estimated fair value of the acquired assets, assumed liabilities and minority interest liability was \$1.4 million.

On December 18, 1998, a subsidiary of the Company acquired a 45% interest in Pino Exporta, renamed to Pinelli Universal S. de R.L. de C.V. ("Pinelli"), a manufacturer of mouldings and related products. Pinelli operates out of one facility in Durango, Mexico. The Company exchanged \$3.0 million for its share of the outstanding common stock of Pinelli, and accounts for its investment utilizing the equity method of accounting. The Company retains an option to acquire an additional 5% interest for \$1 million. The option expires after December 1, 2001. In conjunction with this investment, the Company advanced \$3.2 million in cash to Pinelli in exchange for a note receivable.

Note C. Reorganization Costs

In the fourth quarter of 1997, the Company announced a plan of reorganization. In accordance with that plan, in 1998 it consolidated its operating companies into two integrated divisions, consolidated its regional purchasing from five offices down to two, consolidated or closed certain manufacturing facilities and discontinued manufacturing and/or selling certain products and product lines. In connection with this plan of reorganization, the Company recorded a charge of \$1.6 million in 1997 that consisted of termination benefits of \$448,000, write-downs of fixed assets of \$260,000, abandoned lease costs of \$216,000 and plant remediation costs of \$695,000. During 1999 and 1998, the Company made payments related to the reorganization of \$349,000 and \$379,000, respectively, and in 1998 reclassified other amounts against the related fixed assets.

Notes to Consolidated Financial Statements

Note D. Debt

Effective November 13, 1998, the Company obtained a five-year, \$175 million revolving credit facility which includes amounts reserved for letters of credit. The facility expires in November 2003, and replaced the Company's unsecured lines of credit which had short-term borrowings of \$4,500,000 on December 27, 1997. Borrowings under the revolver are charged interest at a rate of 50 basis points over the applicable Eurodollar rate, while borrowings under the short-term credit lines were at negotiated rates below each respective bank's prime rate. The average rates on these borrowings in 1999, 1998 and 1997 were 5.9%, 5.6% and 6.0%, respectively. The amounts outstanding under the revolving credit facility are included in the long-term debt summary below. Outstanding letters of credit extended on the Company's behalf aggregated \$9.8 million on December 25, 1999.

A majority-owned subsidiary of the Company has an operating line of credit with a bank totaling approximately \$2.1 million, which bears interest at the bank's prime lending rate (6.5% on December 25, 1999) plus 2.00% per annum. The line is secured by inventory and accounts receivable. There was approximately \$1.5 million and \$2.0 million outstanding on this line on December 25, 1999 and December 26, 1998, respectively. In addition, this subsidiary has outstanding letters of credit totaling approximately \$1.0 million on December 25, 1999.

On December 21, 1998, the Company completed a \$100 million private placement of senior unsecured notes payable. The notes were issued in two installments. The Company received the first two tranches aggregating \$81 million on December 21, 1998, and the remaining tranche of \$19 million was received on February 4, 1999. The notes have an average life of nine years and an average interest rate of 6.9%.

During 1999, the Company issued \$7.0 million in variable rate Industrial Development Revenue Bonds. These bonds have bullet maturities ranging from 20 to 30 years.

Long-term debt and capital lease obligations are summarized as follows on December 25, 1999 and December 26, 1998 (amounts in thousands):

	1999	1998
Senior unsecured notes, \$5,714 due annually commencing May 1998 through May 2004, interest due semi-annually at 7.15%	\$ 28,571	\$ 34,286
Series 1998-A Senior Notes Tranche C, due on December 21, 2008, interest payable semi-annually at 6.98%	19,000	
Series 1998-A Senior Notes Tranche B, due on December 21, 2008, interest payable semi-annually at 6.98%	59,500	59,500
Series 1998-A Senior Notes Tranche A, due on December 21, 2005, interest payable semi-annually at 6.69%	21,500	21,500
Revolving credit facility totaling \$175,000,000, due on November 13, 2003, interest due monthly at a floating rate (6.03% on December 25, 1999)	11,800	16,380
Series 1998 Industrial Development Revenue Bonds, due on December 1, 2018, interest payable monthly at a floating rate (3.52% on December 25, 1999)	1,300	
Series 1999 Industrial Development Revenue Bonds, due on July 1, 2029, interest payable monthly at a floating rate (3.74% on December 25, 1999)	2,400	
Series 1999 Industrial Development Revenue Bonds, due on August 1, 2029, interest payable monthly at a floating rate (3.62% on December 25, 1999)	3,300	
Capital lease obligations, interest imputed at rates ranging from 7.25% to 8.00%	3,080	3,430
Notes payable under non-compete agreements, interest imputed at a rate of 7.0%	1,121	2,014
Other	2,726	4,770
	154,298	141,880
Less current portion	7,402	9,760
Long-term portion	\$146,896	\$132,120

Notes to Consolidated Financial Statements

The terms of the revolving credit facility and senior unsecured note agreements (collectively the “agreements”) require, in part, the Company to maintain a minimum net worth and comply with certain financial ratios. The agreements also restrict the amount of additional indebtedness the Company may incur and the amount of assets which may be sold.

On December 25, 1999, the principal maturities of long-term debt and capital lease obligations are as follows (in thousands):

2000	\$ 7,402
2001	6,674
2002	8,445
2003	17,977
2004	5,899
Thereafter	107,901
	<u>\$154,298</u>

On December 25, 1999, the estimated fair value of the Company's long-term debt, including the current portion, was \$147,383,000, which was \$6,915,000 less than the carrying value. The estimated fair value is based on rates anticipated to be available to the Company for debt with similar terms and maturities. The estimated fair values of notes payable included in current liabilities and the revolving credit facility approximated the carrying values.

Note E. Leases

Leased property included in the balance sheet on December 25, 1999 and December 26, 1998 is as follows (in thousands):

	1999	1998
Land and improvements	\$ 295	\$ 295
Buildings and improvements	481	481
Machinery and equipment	3,366	3,111
	4,142	3,887
Less accumulated amortization	(600)	(369)
	\$3,542	\$3,518

Notes to Consolidated Financial Statements

The Company leases certain real estate under operating lease agreements with original terms ranging from one to ten years. The Company is required to pay real estate taxes and other occupancy costs under these leases. Certain leases carry renewal options of five to fifteen years. The Company also leases motor vehicles and equipment under operating lease agreements, for periods of one to seven years. Future minimum payments under noncancellable leases on December 25, 1999 are as follows (in thousands):

	Capital Leases	Operating Leases	Total
2000	\$ 339	\$ 4,907	\$ 5,246
2001	379	4,101	4,480
2002	2,867	3,086	5,953
2003	116	1,908	2,024
2004	5	1,008	1,013
Subsequent		482	482
Total minimum lease payments	3,706	\$15,492	\$19,198
Less imputed interest	(626)		
Present value of minimum lease payments	\$ 3,080		

Rent expense was approximately \$6,939,000, \$5,766,000 and \$4,816,000 in 1999, 1998 and 1997, respectively.

Note F. Deferred Compensation

The Company established 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 from the Company. The Company has purchased life insurance on such executives, payable to the Company in amounts which, if assumptions made as to mortality experience, policy dividends and other factors are realized, will accumulate cash values adequate to reimburse the Company for all payments for insurance and deferred compensation obligations. In the event cash values are not sufficient to fund such obligations, the program allows the Company to reduce benefit payments to such amounts as may be funded by accumulated cash values.

The Company also maintains a non-qualified deferred compensation plan (the "Plan") for the benefit of senior management employees who may elect to defer a portion of their annual bonus payments. The Plan provides investment options similar to the 401(k) plan, including the Company's stock. Investments in shares of the Company's stock are made on a "phantom stock" basis. Assets for the Plan totaled approximately \$1,665,000 and \$1,241,000 on December 25, 1999 and December 26, 1998, respectively, and are included in "Other Assets." Related liabilities totaled \$2,406,000 and \$1,655,000 on December 25, 1999 and December 26, 1998, respectively, and are included in "Other Liabilities." The assets and related liabilities are recorded at fair market value.

Note G. Common Stock

In January 1994, the Employee Stock Gift Program was approved by the Board of Directors which allows management to gift shares of stock to eligible employees based on length of service. The Company gifted 275,400 and 275 shares of stock under this Plan in 1999, 1998 and 1997, respectively, and recognized the market value of the shares at the date of issuance as an expense.

Notes to Consolidated Financial Statements

In April 1994, shareholders approved the Employee Stock Purchase Plan ("Stock Purchase Plan") and Director Retainer Stock Plan ("Stock Retainer Plan"). The Stock Purchase Plan allows eligible employees to purchase shares of Company stock at a share price equal to 90% of fair market value on the purchase date. In 1999, 1998 and 1997, 17,789, 15,016 and 8,677 shares, respectively, were issued under this Plan for amounts totaling approximately \$301,000, \$208,000 and \$113,000, respectively. The Stock Retainer Plan allows eligible members of the Board of Directors to defer their retainer fees and receive shares of Company 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 Company stock at the time of deferral, and is increased for dividends declared. The Company has accrued, in "Accrued Liabilities - Other," approximately \$204,000 and \$163,000 on December 25, 1999 and December 26, 1998, respectively, for amounts incurred under this Plan.

In January 1997, the Company instituted a Directors' Stock Grant Program. In lieu of a cash increase in the amount of Director fees, each outside Director receives 100 shares of stock for each Board Meeting attended up to a maximum of 400 shares per year. In 1999 and 1998, the Company issued 1,800 and 1,500 shares, respectively, and recognized the market value of the shares on the date of issuance as an expense.

On April 22, 1997, the shareholders approved the Long Term Stock Incentive Plan to succeed the Company's 1994 Employee Stock Option Plan. The Plan reserved a maximum of 1,100,000 shares, and provided for the granting of incentive stock options, reload options, stock appreciation rights, restricted stock, performance shares and other stock-based awards. The term of the Plan was ten years. In 1999 and 1998, the Company granted incentive stock options for 231,161 and 471,002 shares, respectively.

On April 28, 1999, the shareholders approved the Long Term Stock Incentive Plan to succeed the Company's 1997 Long Term Stock Incentive Plan. The Plan reserves a maximum of 1,000,000 shares, plus 406,029 shares remaining under the 1997 Plan, plus an annual increase of no more than 200,000 shares which may be added on the date of the annual meeting of shareholders each year. The Plan provides for the granting of incentive stock options, reload options, stock appreciation rights, restricted stock, performance shares and other stock-based awards. The term of the Plan is ten years. In 1999, the Company granted incentive stock options for 25,000 shares.

On October 25, 1997, the Board of Directors approved a share repurchase program for up to 1,000,000 shares of the Company's common stock. In 1997, the Company repurchased 85,502 shares of its common stock for \$1,119,000. On October 21, 1998, the Board of Directors approved a new share repurchase program to succeed the 1997 program. This program allows the Company to repurchase up to 1,800,000 shares of its common stock. In 1999, the Company repurchased 677,801 shares of its common stock for \$10,481,000.

On December 25, 1999, a total of 2,991,166 shares are reserved for issuance under the Plans mentioned above and under Note H below.

Note H. Stock Options and Stock-Based Compensation

Stock options issued under the Long Term Stock Incentive Plan are granted to employees and officers at exercise prices which equaled or exceeded the market value of the stock on the date of grant. The options are exercisable from three to fifteen years from the date of grant and the recipients must be employed by the Company at the date of exercise.

Notes to Consolidated Financial Statements

As permitted under Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," the Company continues to apply the provisions of APB Opinion No. 25 which recognizes compensation expense under the intrinsic value method. Had compensation cost for the stock options granted in 1999 and 1998 been determined under the fair value based method defined in SFAS 123, the Company's net earnings and earnings per share would have been reduced to the following pro forma amounts (in thousands, except per share data):

	1999	1998
Net Earnings:		
As Reported	\$31,448	\$26,419
Pro Forma	\$30,897	\$26,098
EPS - Basic:		
As Reported	\$1.52	\$1.33
Pro Forma	\$1.50	\$1.31
EPS - Diluted:		
As Reported	\$1.48	\$1.28
Pro Forma	\$1.46	\$1.27

Options to purchase 80,000 and 285,000 shares with a weighted average exercise price of \$29.25 and \$21.77 per share were granted in 1999 and 1998, respectively, at exercise prices which exceeded the market prices on the date of grant.

Because the fair value based method of accounting has not been applied to options granted prior to fiscal year 1996, the resulting pro forma compensation cost may not be indicative of future amounts.

The fair value of each option granted in 1999 and 1998 is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	1999	1998
Risk Free Interest Rate	6.20%	6.20%
Expected Life	9.0 years	8.0 years
Expected Volatility	27.75%	28.35%
Expected Dividend Yield	0.40%	0.41%

On June 1, 1993, shareholders approved the Incentive Stock Option Plan (the "Plan") for officers of the Company. Options for the purchase of all 1,200,000 shares of the Company's common stock authorized under the Plan have been granted. The Plan provides that the options are exercisable only if the officer is employed by the Company at the time of exercise and holds at least seventy-five percent of the individuals' shares held on April 1, 1993. The Plan also requires the option shares to be held for periods of six months to three years. The remaining options are exercisable within thirty days of the anniversary of the Plan in 2000 through 2008.

Notes to Consolidated Financial Statements

Stock option activity since the end of 1996 is summarized as follows:

	Shares of Common Stock Attributable to Options	Weighted Average Exercise Price of Options
Outstanding on December 28, 1996	1,215,000	\$4.64
Granted	0	n/a
Exercised	(177,500)	\$2.79
Forfeited	0	n/a
Outstanding on December 27, 1997	1,037,500	\$4.95
Granted	471,002	\$18.60
Exercised	(80,000)	\$3.75
Forfeited	(45,964)	\$7.20
Outstanding on December 26, 1998	1,382,538	\$9.59
Granted	256,161	\$22.74
Exercised	(160,000)	\$4.00
Forfeited	(161,184)	\$10.97
Outstanding on December 25, 1999	1,317,515	\$12.66

The following table summarizes information concerning options on December 25, 1999 (there are no options exercisable on December 25, 1999):

Range of Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life
\$ 4.25 - \$10.00	662,500	4.30
\$10.01 - \$25.00	555,015	5.91
\$25.01 - \$36.01	100,000	11.90
	1,317,515	

Note I. Officers' Stock Notes Receivable

Officers' stock notes receivable represent notes obtained by the Company from certain officers for the purchase of the Company's common stock. On January 1, 1997, the Company sold 30,188 shares of common stock to four officers in exchange for additional notes receivable totaling \$399,991. Interest on the notes ranges from fixed rates of seven to eleven percent per annum and a variable rate of the prime rate less 10% (minimum 6%, maximum 12%). On December 25, 1999, payments on the notes are due as follows (in thousands):

2000	\$ 74
2001	79
2002	43
2003	115
2004	75
Thereafter	249
	<u>\$635</u>

Notes to Consolidated Financial Statements

Note J. Life Insurance

In September 1995, the Company acquired a second-to-die life insurance policy on its Chairman of the Board and his spouse, the Company's largest shareholders. The death benefit on the policy totals \$8,700,000 and the Company is the beneficiary. The Company also maintains an officer's life insurance policy on the Chairman with a death benefit of \$1,300,000. The cash surrender value on these policies on December 25, 1999 and December 26, 1998 is included in "Other Assets."

Note K. Retirement Plans

The Company has a profit sharing and 401(k) plan for the benefit of substantially all of its employees excluding the employees of certain subsidiaries. Amounts contributed to the plan are made at the discretion of the Board of Directors. The Company contributed approximately \$1,548,000, \$1,462,000 and \$1,135,000 in 1999, 1998 and 1997, respectively. In addition, the Company matched 25% of employee contributions, on a discretionary basis, totaling \$717,000, \$597,000 and \$521,000 in 1999, 1998 and 1997, respectively. The basis for matching contributions may not exceed the lesser of 6% of the employee's annual compensation or \$10,000.

In addition, a wholly-owned subsidiary acquired in 1998 has a 401(k) plan for the benefit of substantially all of its employees. This subsidiary matched 50% of employee contributions, on a discretionary basis, totaling \$521,713 and \$328,090 in 1999 and 1998, respectively.

Note L. Income Taxes

Income tax provisions for the years ended December 25, 1999, December 26, 1998, and December 27, 1997 are summarized as follows (in thousands):

	1999	1998	1997
Currently payable:			
Federal	\$18,049	\$13,049	\$ 9,047
State and local	2,455	1,659	356
Foreign	225	615	200
	20,729	15,323	9,603
Net Deferred:			
Federal	301	1,048	(674)
State and local	115	244	96
Foreign	(1,190)		
	(774)	1,292	(578)
	\$19,955	\$16,615	\$ 9,025

Notes to Consolidated Financial Statements

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

	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local taxes	3.2	2.9	1.4
Effect of pooling CBC			(1.5)
Foreign subsidiary adjustments	(1.6)		
Goodwill	1.1	1.0	0.3
Other	1.0	(0.3)	(0.5)
Effective income tax rate	38.7%	38.6%	34.7%

The Company has no present intention of remitting undistributed earnings of its wholly-owned Canadian subsidiary aggregating \$4,070,000 on December 25, 1999 and, accordingly, no deferred tax liability has been established relative to these earnings. If these amounts were not considered permanently reinvested, a deferred tax liability of approximately \$218,000 would have been required.

Temporary differences which give rise to deferred tax assets and liabilities on December 25, 1999 and December 26, 1998 are as follows (in thousands):

	1999		1998	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Employee benefits	\$1,836	(\$1,070)	\$1,609	(\$ 827)
Foreign subsidiary net operating loss		(2,188)		(1,904)
Depreciation		11,126		9,536
Inventory	401		556	
Accrued expenses	2,173	(601)	1,820	(531)
All other	673	323	26	(78)
	\$5,083	\$7,590	\$4,011	\$6,196
Valuation allowance		808		1,904
	\$5,083	\$8,398	\$4,011	\$8,100

Note M. Commitments and Contingencies

The Company is self-insured for environmental impairment liability and accrues an expense for the estimated cost of required remediation actions when situations requiring such action arise. The Company owns and operates 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, the Company 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. Remediation activities are currently being conducted or planned at the Company's North East, Maryland; Union City, Georgia; Stockertown, Pennsylvania; Elizabeth City, North Carolina; Auburndale, Florida; and Schertz, Texas wood preservation facilities. Remediation activities at the Granger, Indiana facility were completed in the second quarter of 1999. Other than minimal costs to dismantle the remediation network, no other costs are expected at this facility in the future.

Notes to Consolidated Financial Statements

The Company has accrued, in "Other Liabilities," amounts totaling approximately \$2,354,000 and \$2,324,000 on December 25, 1999 and December 26, 1998, respectively, representing the estimated costs to complete remediation efforts currently in process and those expected to occur in the future. The accrued costs include operating ground water reclamation wells, estimated costs of chemical treatments and consultant fees.

Various lawsuits and claims, including those involving ordinary routine litigation incidental to its business, to which the Company is a party, are pending, or have been asserted, against the Company. Although the outcome of these matters cannot be predicted with certainty, and some of them may be disposed of unfavorably to the Company, management has no reason to believe that their disposition will have a material adverse effect on the consolidated financial position, operating results or liquidity of the Company.

On December 25, 1999, the Company had outstanding purchase commitments on capital projects totaling \$9.2 million.

Note N. Derivative and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities*, effective for the Company's fiscal year ending December 29, 2001. SFAS 133 expands the definition of the types of contracts considered to be derivatives, requires all derivatives to be recognized in the balance sheet as either assets or liabilities measured at their fair value and sets forth conditions in which a derivative instrument may be designated as a hedge. SFAS 133 further requires that changes in the fair value of derivatives be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to be recorded to other comprehensive income or to offset related results on the hedged item in earnings. The Company has undertaken a review of the implications and effects of SFAS 133. The Company has from time to time entered into contracts considered to be derivatives but the amount of such financial instrument has not been significant. The ultimate effect on the Company's financial position at adoption (approximately January 1, 2001) will depend on the level of such contracts at that time, but the Company does not expect that the effect will be material.

Note O. Segment Reporting

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" in 1998. This statement revised the standards for reporting information about operating segments in financial statements and for related disclosures about products and services, geographic areas, and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Under the definition of a segment, each of the Company's manufacturing, treating and distribution facilities may be considered a segment of its business. Under SFAS No. 131, segments may be aggregated if the segments have similar economic characteristics and if the nature of the products, distribution methods, customers and regulatory environments are similar. The Company has chosen to aggregate its facilities into one reporting segment. The Company operates manufacturing, treating and distribution facilities throughout North America.

In 1999, 1998 and 1997, 26%, 20% and 18% of net sales, respectively, were to a single customer.

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

	1999		1998		1997	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	\$1,394,454	\$ 237,366	\$1,205,178	\$ 223,772	\$1,040,321	\$ 69,788
Canada	39,756	11,461	33,080	10,968	25,046	1,958
Mexico	845	4,305	649	3,478	933	
Total	\$1,435,055	\$ 253,132	\$1,238,907	\$ 238,218	\$1,066,300	\$ 71,746

Notes to Consolidated Financial Statements

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

In the fourth quarter of 1999, the Company closed the operations of its wholly-owned Mexican subsidiary, Universal Forest Products de Mexico. As a result of this action, a cumulative foreign currency translation adjustment totaling \$1.0 million was written off and recorded as a loss in 1999.

Note P. Quarterly Financial Information (Unaudited)

The following table sets forth selected financial information for all of the quarters during the years ended December 25, 1999 and December 26, 1998 (in thousands, except per share data):

	First		Second		Third		Fourth	
	1999	1998	1999	1998	1999	1998	1999	1998
Net Sales	\$300,180	\$238,197	\$466,751	\$388,677	\$388,402	\$341,071	\$299,722	\$270,962
Gross Profit	41,217	24,492	55,738	46,315	47,142	42,879	38,374	35,527
Net earnings	5,361	3,577	12,748	11,123	9,557	8,498	3,782	3,221
Diluted earnings per share	0.25	0.20	0.60	0.52	0.45	0.40	0.18	0.15



Price Range of Common Stock and Dividends

The Company's common stock trades on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol UFPI. The following table sets forth the range of high and low sales prices as reported by Nasdaq.

Fiscal 1999	High	Low	Fiscal 1998	High	Low
Fourth Quarter	16.875	11.937	Fourth Quarter	20.500	12.668
Third Quarter	22.125	15.125	Third Quarter	18.750	14.125
Second Quarter	21.562	18.000	Second Quarter	18.500	15.500
First Quarter	24.125	17.437	First Quarter	17.000	12.250

There were approximately 5,600 shareholders of record as of March 1, 2000.

In 1999, the Company paid dividends on its common stock of \$.035 per share in June and \$.040 per share in December.

The Company intends to continue with its current dividend policy for the foreseeable future.

Directors and Executive Officers

Board of Directors

Peter F. Secchia
Chairman of the Board
Universal Forest Products®, Inc.

William G. Currie
Vice Chairman of the Board and
Chief Executive Officer
Universal Forest Products®, Inc.

John C. Canepa
Consulting Principal
Crowe Chizek and Company, LLP

Richard M. DeVos
Founder
Amway Corporation

John W. Garside
Chairman
Woodruff Coal Company

Philip M. Novell
Consultant
Compass Group

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

Carroll M. Shoffner
Chairman
Shoffner Industries, LLC

Operations Officers

James H. Ward
President
Universal Forest Products
Eastern Division, Inc.

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

Gary A. Wright
President
Shoffner Industries, LLC

Robert D. Coleman
Executive Vice President
Manufacturing
Universal Forest Products®, Inc.

Philip E. Rogers
Executive Vice President
Sales and Marketing
Universal Forest Products®, Inc.

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

Executive Committee

Peter F. Secchia
Chairman of the Board

William G. Currie
Vice Chairman of the Board and
Chief Executive Officer

Michael B. Glenn
President and Chief Operating Officer

Michael R. Cole
Vice President Finance and
Acting Chief Financial Officer

Matthew J. Missad
Executive Vice President and Secretary

Shareholder Information

Notice of Annual Meeting

The annual meeting of Universal Forest Products®, Inc. will be held at 8:30 a.m. on April 19, 2000, at the Amway Grand Plaza Hotel, Pearl at Monroe, Grand Rapids, Michigan.

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:

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Grand Rapids, MI 49525
Telephone: (616) 364-6161
Web: www.ufpinc.com

Securities Counsel

Varnum, Riddering,
Schmidt & Howlett
Grand Rapids, Michigan

Independent Accountants

Deloitte & Touche LLP
Grand Rapids, Michigan

Transfer Agent/

Shareholder's 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.
40 Wall Street
New York, NY 10005
Telephone: (718) 921-8210

Universal Forest Products®, Inc. Corporate Headquarters

2801 East Beltline, NE
Grand Rapids, MI 49525
Telephone: (616) 364-6161
Facsimile: (616) 361-7534

Universal Forest Products®, Inc. and its Affiliates

Facility Locations

Arlington, TX
Auburndale, FL
Belchertown, MA
Bend, OR
Bunn, NC
Burlington, NC
Calgary, Alberta, Canada
Chandler, AZ
Chesapeake, VA
Conway, SC
Dallas, NC
Denver, CO
Durango, Durango, Mexico
Eastaboga, AL
Eatonton, GA
Elizabeth City, NC
Emlenton, PA
Fishersville, VA
Georgetown, DE

Gordon, PA
Grandview, TX (2)
Granger, IN
Hamilton, OH
Harrisonville, MO
Hohenwald, TN (2)
Hope, AR
Jackson, MS
Janesville, WI
Jefferson, GA
Kyle, TX
LaColle, Quebec, Canada
Lafayette, CO (2)
Laurinburg, NC
Liberty, NC
Lodi, OH
Moultrie, GA
New Waverly, TX
New Windsor, MD
Ooltewah, TN
Parker, PA
Pearisburg, VA
Ranson, WV
Riverside, CA
Rockwood, TN
Saginaw, TX
Salisbury, NC
San Antonio, TX
Sanford, NC
Santee, SC
Schertz, TX
Silsbee, TX
Stockertown, PA
Stockton, CA
Union City, GA
Warrens, WI
Warrenton, NC
Windsor, CO
Woodburn, OR







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