THORATEC CORP
Form 10-Q
August 09, 2005

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark one)

þ **Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended July 2, 2005
or

o **Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
for the transition period from to
COMMISSION FILE NUMBER: 1-8145
THORATEC CORPORATION
(Exact name of registrant as specified in its charter)

California	
(State or other jurisdiction of incorporation or organization)	**94-2340464** **(I.R.S. Employer Identification No.)**
6035 Stoneridge Drive, Pleasanton, California	**94588**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (925) 847-8600

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes þ No o

As of August 5, 2005 registrant had 49,388,722 shares of common stock outstanding.

THORATEC CORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands)

	July 2, 2005	January 1, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 20,396	$ 16,017
Short-term available-for-sale investments	150,104	129,842
Restricted short-term investments	3,347	3,362
Receivables, net of allowances of $856 and $708 respectively	29,625	33,051
Inventories	39,953	39,141
Deferred tax asset	6,470	6,470
Prepaid expenses and other assets	3,722	3,873
Total current assets	253,617	231,756
Property, plant and equipment, net	27,104	27,584
Goodwill	94,097	94,097
Purchased intangible assets, net	147,537	153,141
Restricted long-term investments	3,221	4,845
Long-term deferred tax asset	6,430	6,381
Other assets	6,364	6,611
Total Assets	$538,370	$524,415
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	7,528	7,699
Accrued compensation	9,814	9,507
Accrued income tax	4,272	2,299
Other accrued expenses	6,022	6,001
Total current liabilities	27,636	25,506
Senior subordinated convertible notes	143,750	143,750
Long-term deferred tax liability and other liabilities	61,219	63,051
Total liabilities	232,605	232,307
Shareholders Equity:		
Common shares; 100,000 authorized; issued and outstanding 49,185 and 48,735, respectively	373,519	364,775
Deferred compensation	(1,173)	(1,586)
Accumulated deficit	(66,442)	(71,514)
Accumulated other comprehensive income (loss):		

Unrealized loss on investments	(285)	(325)
Cumulative translation adjustments	146	758
Total accumulated other comprehensive income (loss)	(139)	433
Total shareholders equity	305,765	292,108
Total Liabilities and Shareholders Equity	$538,370	$524,415

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Product sales	$47,588	$40,603	$98,076	$83,395
Cost of product sales	18,387	16,314	38,435	34,035
Gross profit	29,201	24,289	59,641	49,360
Operating expenses:				
Selling, general and administrative	14,806	13,774	29,623	26,787
Research and development	7,925	7,380	15,644	14,718
Amortization of purchased intangible assets	2,800	2,931	5,604	5,862
Litigation and other costs	(1)		177	133
Total operating expenses	25,530	24,085	51,048	47,500
Income from operations	3,671	204	8,593	1,860
Other income and (expense):				
Interest expense	(1,037)	(418)	(2,045)	(418)
Interest income and other	1,034	475	1,870	939
Income before income tax expense	3,668	261	8,418	2,381
Income tax expense	(1,247)	(54)	(2,862)	(881)
Net income	$ 2,421	$ 207	$ 5,556	$ 1,500
Net income per share, basic and diluted	$ 0.05	$ 0.00	$ 0.11	$ 0.03
Shares used to compute net income per share:				
Basic	48,735	53,722	48,470	54,907
Diluted	50,146	55,175	49,530	56,315

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended	
	July 2, 2005	**July 3, 2004**
Cash flows from operating activities:		
Net income	$ 5,556	$ 1,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,445	9,327
Investment premium amortization	288	270
Non-cash interest and other expenses	313	418
Tax benefit related to stock options	2,062	388
Amortization of deferred compensation	481	455
Loss on disposal of assets	158	1
Change in net deferred tax liability	(2,111)	(1,698)
Changes in assets and liabilities:		
Receivables	3,426	275
Inventories	(1,564)	(3,257)
Prepaid expenses and other assets	151	(696)
Accounts payable and other liabilities	2,305	2,443
Other	139	(7)
Net cash provided by operating activities	20,649	9,419
Cash flows from investing activities:		
Purchases of available-for-sale investments	(53,265)	(52,310)
Sales of available-for-sale investments	20,808	31,050
Maturities of available-for-sale investments	13,535	16,620
Purchases of property, plant and equipment, net	(2,866)	(3,628)
Net cash used in investing activities	(21,788)	(8,268)
Cash flows from financing activities:		
Net proceeds from issuance of convertible notes		139,181
Proceeds from stock option exercises, net	7,684	2,070
Proceeds from stock issued under employee stock purchase plan	684	788
Repurchase of common stock	(2,238)	(71,759)
Net cash provided by financing activities	6,130	70,280
Effect of exchange rate changes on cash and cash equivalents	(612)	60
Net increase in cash and cash equivalents	4,379	71,491
Cash and cash equivalents at beginning of period	16,017	18,270
Cash and cash equivalents at end of period	$ 20,396	$ 89,761

Supplemental disclosure of cash flow information:

Cash paid for taxes	$ 1,044	$ 465
Cash paid for interest	$ 1,707	$
Supplemental disclosure of non-cash investing and financing activities:		
Transfers of equipment from inventory	$ 752	$ 208

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in thousands)

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net income	$2,421	$ 207	$5,556	$1,500
Other net comprehensive income :				
Unrealized gain (loss) on investments (net of taxes of $(58) and $102 for the three months ended and $50 and $122 for the six months ended July 2, 2005 and July 3, 2004, respectively)	97	(160)	40	(191)
Foreign currency translation adjustments (net of taxes of $122 and $0 for the three months ended and $155 and $0 for the six months ended July 2, 2005 and July 3, 2004, respectively)	(479)	(11)	(612)	60
Comprehensive income	$2,039	$ 36	$4,984	$1,369

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, unless otherwise stated)

1. Basis of Presentation

The interim condensed consolidated financial statements of Thoratec Corporation, referred to herein as we, our, Thoratec, or the Company, have been prepared and presented in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission, referred to as the SEC, without audit, and reflect all adjustments necessary (consisting only of normal recurring adjustments) to present fairly our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. The accompanying financial statements should be read in conjunction with our fiscal 2004 consolidated financial statements filed with the SEC in our Annual Report on Form 10-K. The operating results for any interim period are not necessarily indicative of the results that may be expected for any future period.

The preparation of our condensed consolidated financial statements necessarily requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented.

We have made certain reclassifications of 2004 amounts to conform to the current presentation.

In balance sheets prior to January 1, 2005, auction rate securities were classified as cash and cash equivalents . These securities have been reclassified for all periods presented from cash and cash equivalents to short term available-for-sale investments . These auction rate securities have an underlying component of a long-term debt or equity instrument; however, they are traded or mature on a shorter term based on an auction bid that resets the interest rate over time intervals of 28 to 49 days. These resets allow for a much higher level of liquidity than typical long term investments. As of January 3, 2004, we reclassified $43.8 million of these securities to short-term available-for-sale investments from cash and cash equivalents based on the period from purchase date to the reset date and as they are not intended to be held to the maturity date.

2. Stock Based Compensation

We account for stock-based compensation to employees using the intrinsic value method in accordance with Accounting Principals Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are recorded in shareholders equity. Similarly, no accounting recognition is given to our employee stock purchase plan until a purchase occurs. Upon purchase, net proceeds are recorded in common stock. Under the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, the fair value of each option granted as a stock option or as an option to purchase shares under the employee stock purchase plan is estimated using the Black-Scholes option-pricing model. If compensation cost for our stock-based plans had been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS No. 123, our reported net income would have been adversely affected, as shown in the following table:

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
	(in thousands, except per share data)			
		(Restated)		(Restated)
Net income:				
As reported	$ 2,421	$ 207	$ 5,556	$ 1,500
Add: Stock-based compensation expense included in reported net income, net of related	164	148	318	287

tax effects				
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,475)	(3,981)	(3,499)	(5,877)
Pro forma net income (loss)	$ 1,110	$ (3,626)	$ 2,375	$ (4,090)
Basic and Diluted earnings (loss) per share:				
As reported	$ 0.05	$ 0.00	$ 0.11	$ 0.03
Pro forma income (loss)	$ 0.02	$ (0.07)	$ 0.05	$ (0.07)

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Subsequent to the issuance of our condensed consolidated financial statements for the quarter ended October 2, 2004, management determined that total stock based employee compensation expense determined under the fair value based method, net of related tax effects, for the first three quarters of 2004 had been calculated incorrectly. Accordingly, such pro forma amounts presented above have been restated. The effect was to increase pro forma stock-based compensation expense, net of tax and pro forma net loss by $0.6 million for the three months ended and $0.5 million for the six months ended July 3, 2004. Pro forma earnings per share were also decreased by $0.02 per share for basic and diluted earnings per share for the three months ended July 3, 2004 and $0.01 for basic and diluted earnings per share for the six months ended July 3, 2004. This correction did not impact the Company s consolidated financial position, results of operations, or cash flows for any of the periods presented.

3. New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued statement 123R Share-Based Payment . This statement requires that stock-based compensation be recognized as a cost in the financial statements and that such cost be measured based on the fair value of the stock-based compensation. Our adoption of this statement, which we expect to occur in the first quarter of 2006, will have a material, although non-cash, impact on our consolidated statements of operations.

4. Cash and cash equivalents

We consider highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

5. Investments

Our investments are primarily held in auction rate securities, corporate and municipal bonds and U.S. government obligations and are classified as available-for-sale and are reported at fair value based upon quoted market price. All investments mature within two years or less from the date of purchase, except for some investments in U.S. Treasuries held as restricted investments as collateral for future interest payments related to our convertible debt, which mature within three years from the date of purchase. Investments with maturities beyond one year may be classified as short-term, if they are intended for use in operations, based on their highly liquid nature or due to the frequency in which the interest rate is reset such as with auction rate securities. In addition, these securities represent the investment of cash that is available and intended for current operations. Investments that are not intended for use in current operations are classified as long-term investments.

Securities classified as restricted are investments held in U.S. Treasuries as collateral for future interest payments related to our convertible debt and are reported at fair value based upon quoted market price. The investments that relate to interest payments due within one year have been classified as restricted short-term investments and the investments that relate to interest payments due after one year have been classified as restricted long-term investments. We determined that these investments had no impairments that were other-than temporary.

For all investments, temporary differences between cost and fair value are presented as a separate component of accumulated other comprehensive income. The specific identification method is used to determine realized gains and losses on investments.

6. Financial Instruments

We have a foreign currency exchange risk management program principally designed to mitigate the change in value of assets and liabilities (primarily assets and liabilities on our UK subsidiary s consolidated balance sheet that are denominated in UK pounds). Forward exchange contracts that generally have terms of three months or less are used to hedge these currency exposures on our books. The derivatives used in the foreign currency exchange risk management program are not designated as cash flow or fair value hedges under SFAS 133. These contracts are recorded on the condensed consolidated balance sheets at fair value in Deferred Tax Asset and Other Prepaid Assets current assets. Changes in the fair value of the contracts and the underlying exposures being hedged are included concurrently in Interest income and other. At July 2, 2005 the Company had forward foreign currency contracts to exchange Pounds Sterling for Euros with a notional value of $2.9 million. At January 1, 2005, the Company had forward foreign currency contracts to exchange Pounds Sterling and Euros for U.S. Dollars with a notional value of $6.9 million. For both periods the fair values of these contracts were negligible. Net foreign currency exchange loss was $0.1 million for both three months ended and $0.3 million and $0.2 million for the six months ended July 2, 2005 and July 3, 2004, respectively.

7. Inventories

Inventories consist of the following:

	As of	
	July 2, 2005	January 1, 2005
	(in thousands)	
Finished goods	$17,785	$18,562
Work in process	8,286	4,582
Raw materials	13,882	15,997
Total	$39,953	$39,141

8. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	As of	
	July 2, 2005	January 1, 2005
	(in thousands)	
Property, plant and equipment, at cost	$ 64,241	$ 61,670
Less accumulated depreciation	(37,137)	(34,086)
Total	$ 27,104	$ 27,584

In the second quarter of 2005 we adjusted the estimated lives of some computer equipment from five years to three years.

9. Goodwill and Purchased Intangible Assets

The change in the carrying amount of goodwill, which is attributable to our Cardiovascular business segment, for the six and twelve month periods ended July 2, 2005 and January 1, 2005 was as follows:

	As of	
	July 2, 2005	January 1, 2005
	(in thousands)	
Beginning balance	$94,097	$96,065
Realization of acquired deferred tax asset		(1,153)
Reversal of accrual for securities registration costs		(815)
Ending balance	$94,097	$94,097

There were no adjustments to Goodwill in the first six months of 2005. In 2004, goodwill related to the merger of Thoratec with Thermo Cardiosystems, Inc. (TCA) was adjusted by $1.2 million to reflect the utilization of tax net operating loss (NOL) benefits related to our subsidiary in the United Kingdom (UK). At the time of the merger, a deferred tax asset related to these NOL tax benefits was established with a corresponding valuation allowance for the full amount. As our UK subsidiary more likely than not will begin utilizing a portion of this NOL benefit, a portion of the original valuation allowance has been reversed against goodwill.

In addition, goodwill was also adjusted by $0.8 million in the first quarter of 2004 to reflect the reversal of an accrual established at the time of the merger with TCA for securities registration costs. Under the terms of the agreement, we agreed to pay these costs should Thermo Electron Corporation (TCI) (the majority shareholder of TCA prior to the merger) decide to sell its shares of the Company s common stock in a public offering. This commitment was enforceable until TCI s holdings in Thoratec fell below 10%, which occurred in the first quarter of 2004.

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The components of purchased intangible assets, net are as follows:

	As of July 2, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)	
Patents and Trademarks	$ 37,815	$(15,873)	$ 21,942
Core Technology	37,485	(8,002)	29,483
Developed Technology	122,782	(26,736)	96,046
Non-compete Agreement	90	(24)	66
Total Purchased Intangible Assets, net	$198,172	$(50,635)	$ 147,537

	As of January 1, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)	
Patents and Trademarks	$ 37,815	$(14,051)	$ 23,764
Core Technology	37,485	(7,242)	30,243
Developed Technology	122,782	(23,721)	99,061
Non-compete Agreement	90	(17)	73
Total Purchased Intangible Assets, net	$198,172	$(45,031)	$ 153,141

Effective January 1, 2005, the Company revised its estimate for the remaining useful lives for certain of its core and developed technology intangible assets. The effect of the change was to decrease amortization expense by $0.3 million during the six months ended July 2, 2005 and is expected to decrease amortization by $0.5 million during each of the next five years. Amortization expense related to purchased intangible assets, net was $2.8 million and $5.6 million for the three and six months ended July 3, 2005, respectively. Amortization expenses were $2.9 million and $5.9 million for the three and six months ended July 3, 2004, respectively. Amortization expense on our existing purchased intangible assets is expected to be approximately $11.2 million for each of the next five years. Patents and trademarks have useful lives of eight to twenty years, core and developed technology assets have useful lives ranging from nine to twenty four years and the useful life of the non-compete agreement is approximately six years.

10. Long-Term Debt

In the second quarter of 2004, we completed the sale of $143.8 million initial principal amount of senior subordinated convertible notes due 2034. The convertible notes were sold to Qualified Institutional Buyers pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Rule 144A thereunder. We used $9.8 million of the net proceeds to purchase and pledge to the trustee under the indenture for the exclusive benefit of the holders of the convertible notes, U.S. Treasury securities to provide for the payment, in full, of the first six scheduled interest payments. These securities are reflected on our condensed consolidated balance sheets as restricted short-term and long-term investments. Additional net proceeds were used to repurchase 4.2 million shares of our outstanding common stock for $60 million. The remaining net proceeds will be used for general corporate purposes, which may include additional stock repurchases, strategic investments or acquisitions. Total net proceeds to the Company from the sale of these convertible notes were $139.4 million, after debt issuance costs of $4.3 million.

The convertible notes were issued at an issue price of $580.98 per note, which is 58.098% of the principal amount at maturity of the notes. The convertible notes bear interest at a rate of 1.3798% per year on the principal amount at maturity, payable semi-annually in arrears in cash on May 16 and November 16 of each year, from November 16, 2004 until May 16, 2011. Beginning on May 16, 2011, the original issue discount will accrue daily at a rate of 2.375% per year on a semi-annual bond equivalent basis and, on the maturity date, a holder will receive $1,000 per note. As a result, the aggregate principal amount of the notes at maturity will be $247.4 million.

The deferred debt issuance costs of $3.6 million, net of $0.7 million in amortization, are included in other assets on the condensed consolidated balance sheet. The deferred debt issuance costs are amortized on a straight line basis until May 2011 at which point the Company can redeem the debt. These charges are included in Interest expense on the condensed consolidated statement of operations.

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Long Term Debt Offering Proceeds (in millions):

Principal amount of convertible notes at maturity	$ 247.4
Original issue discount	(103.7)
Debt issuance costs	(4.3)
Net proceeds	$ 139.4

Holders of the convertible notes may convert their convertible notes into shares of our common stock at a conversion rate of 29.4652 shares per $1,000 principal amount of convertible notes, which represents a conversion price of $19.72 per share, subject to adjustments upon the occurrence of certain events. Holders were able to convert their convertible notes at any point after the close of business on September 30, 2004 if, as of the last day preceding the calendar quarter, the closing price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding calendar quarter is more than 120% of the accreted conversion price per share of our common stocerif;font-size: 10pt;"> In July 2015, the FASB issued Accounting Standards Update 2015-12 “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965)” (“ASU 2015-12”). The amendments in Part I of ASU 2015-12 eliminated the requirements that employee benefit plans measure the fair value of fully benefit-responsive investment contracts and provide the related fair value disclosures, rather these contracts will be measured and disclosed only at contract value. The amendments in Part II of ASU 2015-12 will require plans to disaggregate their investments measured using fair value only by general type, either on the financial statements or in the notes. Part II also eliminated the requirement to disclose the net appreciation/depreciation in fair value of investments by general type and the requirements to disclose individual investments that represent 5% or more of net assets available for benefits. The amendments in Part III of ASU 2015-12 provide a practical expedient to permit plans to measure its investments and investment related accounts as of a month-end date closest to its fiscal year for a plan with a fiscal year end that does not coincide with the end of a calendar month. The amendments in ASU 2015-12 are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. As such, we early adopted ASU 2015-07 and ASU 2015-12 as of the year ended December 31, 2015. In regards to the early adoption of ASU 2015-07, the adoption of this standard did not have a material impact on the financial statements. In regards to the early adoption of ASU 2015-12, the adoption was applied retrospectively and certain reclassifications were made on the Statement of Net Assets Available for Benefits to present comparative statements and certain investment disclosures were revised or eliminated as a result of the adoption of this ASU.

Basis of Accounting

The financial statements of the Universal Forest Products, Inc. (Plan Sponsor) Employees’ Profit Sharing and 401(k) Plan (the Plan) are presented on the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts. Although actual results could differ from these estimates, management believes estimated amounts recorded are reasonable and appropriate.

Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Notes to Financial Statements (continued)

Risks and Uncertainties

The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

Investment Valuation and Income Recognition

The Plan's investments are stated at estimated fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. The Plan utilizes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following provides a description of the three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Significant observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable or can be derived from or corroborated by observable market data by correlation or other means.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following valuation methodologies were used to measure the fair value of the Plan’s investments:

Common Stock: Valued at quoted market prices in an exchange and active market in which the securities are traded.

Money Market Fund: Valued at quoted market prices in an exchange and active market, which represent the net asset value (NAV) of shares held by the Plan. The money market fund seeks to maintain a $1.00 NAV.

Mutual Funds: Valued at quoted market prices in an exchange and active market, which represent the net asset values of shares held by the Plan.

Common Collective Trust Funds: The fair value of participation units held in Principal Global Investors Trust Company (formally known as “Union Bond & Trust Company”) Stable Value Fund, often referred to as "Morley Stable Value Fund", are based on net asset value, which is obtained on audited information reported by the issuer of the common collective trust at year-end, and is used as a practical expedient.

The Plan’s valuation methods may result in a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although Plan management believes the valuation methods are appropriate and consistent with

Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Notes to Financial Statements (continued)

those participating in the market, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The investment objective of the Morley Stable Value Fund is to provide preservation of capital, relatively stable returns consistent with its comparatively low risk profile, and liquidity for benefit-responsive payments. Withdrawals from the Morley Stable Value Fund for benefit payments and participant transfers to noncompeting options are made to plan participants promptly upon request but in all cases within 30 days after written notification has been received. All plan sponsor-directed full or partial withdrawals are subject to a twelve month advance written notice requirement, though the Morley Stable Value Fund may waive this requirement at its discretion.

The Universal Forest Products Stock Fund (the Fund) is tracked on a unitized basis. At December 31, 2016, the Fund consists of common stock of Universal Forest Products, Inc. (Plan Sponsor) and funds that are held in the Wells Fargo Government Money Market Fund that are sufficient to meet the Fund's daily cash needs. Unitization of the Fund allows for daily trades. The value of a unit reflects the combined market value of the common stock and the Wells Fargo Government Money Market Fund held by the Fund. At December 31, 2016 and 2015, 686,598 and 763,542 units, respectively, were outstanding with a value of $100.85 and $67.96 per unit, respectively.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation and depreciation include the Plan's gains and losses on investments bought or sold as well as held during the year.

Notes Receivable from Participants

Notes receivables from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are deemed distributions based upon the terms of the Plan document.

Payment of Benefits

Benefits are recorded when paid.

Concentration of Investments

Included in investments at December 31, 2016 and 2015 are shares of the Plan Sponsor's common stock with an aggregate fair value of $67,848,848 and $50,741,137, respectively. This investment represents 28% and 25% of total investments at December 31, 2016 and 2015, respectively. A significant decline in the market value of the sponsor's stock would significantly affect the net assets available for benefits.

Administrative Expenses

Administrative expenses incurred in connection with the operations of the Plan are paid via certain investment and transactional fees which are borne by the Plan and applied to applicable participant balances. These fees are disclosed in the annual Fee Disclosure Notice and on individual account statements sent to all Plan participants. Substantially all of these expenses are paid to parties-in-interest of the Plan and are based on reasonable and customary rates for the related services. Certain administrative expenses not reflected in this report are paid directly by the Plan Sponsor.

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Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Notes to Financial Statements (continued)

2. Description of the Plan

General

The following description of the Plan provides only general information. Participants should refer to the Plan Document and Summary Plan Description, as amended, for a more complete description of the Plan's provisions.

The Plan is a defined-contribution, profit sharing and 401(k) plan that provides tax-deferred benefits for substantially all eligible employees of the Plan Sponsor or other Participating Employers, excluding the employees of separate subsidiaries that maintain a similar defined-contribution plan and those covered under a collective bargaining agreement. The Plan is subject to the provisions of the Employee Retirement Security Act of 1974 (ERISA).

All newly eligible employees are automatically enrolled in the Plan at a deferral level of 3% of eligible compensation. Eligible employees are those who are 18 years or older, have completed 60 days of employment and are hired to work more than 180 days.

Contributions

Participants may voluntarily contribute up to 75% of their eligible compensation as a 401(k) contribution subject to certain regulatory limitations. Participant contributions to the Plan vest immediately.

The Plan Sponsor contributes regular discretionary matching contributions and may contribute additional discretionary matching contributions. Regular discretionary matching contributions are made quarterly and were 25% of participant deferrals in 2016 and 2015, on the first 6% of each participant's eligible compensation. In 2016, an additional discretionary matching contribution of approximately $1.7 million was made subsequent to year-end, and is therefore included in the Employer contribution receivable at year-end. These amounts are not guaranteed, and may vary from year to year as the Plan Sponsor is not obligated to make such contributions.

The Plan Sponsor may also contribute a discretionary profit sharing amount annually as determined by management and approved by the Plan Sponsor's Board of Directors. The Plan Sponsor's annual profit sharing contributions are allocated to participants who had at least 1,000 hours of service during the plan year and are allocated to each participant's account in the same ratio that each participant's total compensation for the Plan year bears to the total compensation of all participants for such year. No discretionary profit sharing contributions were made in 2016 or 2015.

Employer contributions are subject to a vesting schedule as follows:

Years of Service	Vesting Percentage
Less than 2	0%
2 but less than 3	20
3 but less than 4	40
4 but less than 5	60
5 but less than 6	80
6 or more	100

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Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Notes to Financial Statements (continued)

The Plan was amended effective January 1, 2012 to be designated as an ESOP for those Participants with a portion of their account balance invested in the Universal Forest Products, Inc. Common Stock Fund. This provision allows those Participants who are 100% vested the opportunity to elect to have the dividends on the employer stock fund paid to them in cash.

Participant Accounts

Participants may select from various investment options made available by the Plan. Each participant's account is credited with the participant's contribution, an allocation of the Plan Sponsor's contribution, if any, Plan earnings and losses and certain administrative expenses. Earnings allocations are based on participant account balances, as defined in the Plan agreement.

The vested portion of terminated and retired participants' accounts are available for distribution following a separation from service. Forfeitures are used to offset the Plan Sponsor's matching contributions and for reasonable administrative expenses. During 2016 and 2015, forfeitures of approximately $270,000 and $200,000, respectively, were used to offset the Plan Sponsor's matching contributions.

Participant Loans

Participants may borrow from their account a minimum amount of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance, reduced by any outstanding loans as outlined in the Plan Document. Loan terms range from one to five years or up to 25 years for the purchase of a residence. The loans bear interest at a rate equal to the prime rate (3.75% at December 31, 2016) plus 2% calculated on a daily basis. Interest rates on outstanding loans ranged from 4.50% to 11.50% at December 31, 2016.

Payment of Benefits

Before attainment of age 59½, participants may request in-service withdrawals from the Rollover balance within their account. Participants may also request an in-service withdrawal from their Salary Deferral balance in the event of a financial hardship, subject to certain limitations as defined by the Plan. Once a participant attains age 59½, in-service withdrawals may be made from all contribution sources.

Upon separation from service, a participant is eligible for a lump sum distribution of their full, vested account balance. Participants may elect to receive the distribution in a lump sum amount, a qualified rollover to another plan, or may defer their distribution until a later date. However, in the absence of an election, if the vested portion of a participant's account is $1,000 or less, this amount will be paid as a lump sum distribution as soon as administratively allowable. Participants who incur a separation from service as a result of their death, Total Disability, or Retirement will be vested at 100% prior to their distribution.

Termination

The Plan Sponsor intends to continue the Plan indefinitely, but reserves the right to terminate or amend the Plan at any time. In the event of termination of the Plan, all participants are automatically fully vested in the value of their accounts and will be paid in full.

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Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Notes to Financial Statements (continued)

3. Transfers

There were no transfers to or from the 401(k) plan during 2016. As permitted by the plan, funds totaling $21,926 were transferred from the Shawnlee Construction LLC 401(k) Plan (an affiliated plan) during 2015, due to employee transfers.

4.Investments

The tables below set forth by level within the fair value hierarchy the Plan's investments as of December 31, 2016 and 2015.

	Investment Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Company common stock	$ 67,848,848	$ —	$ —	$ 67,848,848
Money market funds	1,397,361	—	—	1,397,361
Mutual funds	138,984,605	—	—	138,984,605
Total assets in fair value hierarchy	208,230,814	—	—	208,230,814
Investments measured at net asset value*	—	—	—	31,755,124
Total investments at fair value	$ 208,230,814	$ —	$ —	$ 239,985,938

Investment Assets at Fair Value as of December 31, 2015

	Level 1	Level 2	Level 3	Total
Company common stock	$ 50,741,137	$ —	$ —	$ 50,741,137
Money market funds	1,149,904	—	—	1,149,904
Mutual funds	116,801,448	—	—	116,801,448
Total assets in fair value hierarchy	168,692,489	—	—	168,692,489
Investments measured at net asset value*	—	—	—	30,513,422
Total investments at fair value	$ 168,692,489	$ —	$ —	$ 199,205,911

* The investments in common/collective trusts are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Assets Available for Benefits.

There have been no changes in the methodologies used at December 31, 2016 and 2015, and there have been no significant transfers in or out of Levels 1, 2 or 3.

5. Income Tax Status

The Plan Sponsor has received a determination letter from the Internal Revenue Service dated March 17, 2017, stating that the Plan is qualified under section 401(a) of the Internal Revenue Code (the Code), and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Sponsor believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan administrator has analyzed the tax

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Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Notes to Financial Statements (continued)

positions taken by the Plan and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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Universal Forest Products, Inc. Employees' Profit Sharing and

401(k) Plan

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

EIN #38-1465835 Plan #001

December 31, 2016

(a)	(b) Identity of Issuer, Borrower, Lessor, or Similar Party	(c) Description of Investment Including, Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value		(e) Current Value
	Common stock:			
*	Universal Forest Products, Inc.	Universal Forest Products Common Stock	$	67,848,848
	Common collective trust funds:			
	Principal Global Investors Trust Company	Stable Value Fund		31,755,124
	Money market funds:			
	Wells Fargo	Government Money Market Fund		1,397,361
	Mutual funds:			
	JP Morgan	Large Cap Growth Fund		10,399,076
	Vanguard	Midcap Index Fund		14,142,362
	Vanguard	Small Cap Index Fund		1,552,450
	Vanguard	Total Bond Market Index		3,941,675
	Vanguard	Total International Stock Index Fund		722,614
	Vanguard	500 Index Fund		12,975,164
	Neuberger Berman	Genesis Fund		9,770,249
	Invesco	Growth and Income Fund		16,151,148
	Dodge & Cox	Income Fund		5,700,018
	Dodge & Cox	International Stock Fund		5,177,687
	T. Rowe Price	Retirement 2050 Fund		7,997,805
		Retirement 2040 Fund		12,838,099
		Retirement 2030 Fund		14,992,377
		Retirement 2020 Fund		18,735,603

		Retirement 2010 Fund	2,119,153
		Retirement Income Fund	1,769,125
			138,984,605
			239,985,938
*	Notes receivable from participants	Collateralized by vested account balances, payable in monthly installments with interest rates ranging from 4.50% to 11.50%	
			8,841,630
			$ 248,827,568

* Indicates a party-in-interest to the Plan.

Note: Column (d), cost, is not applicable, as all investments are participant-directed.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Universal Forest Products, Inc., as Plan Administrator, has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

	Universal Forest Products, Inc. Employee's Profit Sharing and 401(k) Plan
Date: June 14, 2017	/s/ Michael R. Cole Michael R. Cole, Universal Forest Products, Inc., Plan Administrator
Date: June 14, 2017	/s/ Nancy A. DeGood Nancy A. DeGood, Universal Forest Products, Inc., Plan Administrator

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EXHIBIT INDEX

Exhibit No.	Description
23	Consent of BDO USA, LLP