

SIMPSON MANUFACTURING CO INC /CA/  
Form 10-Q  
May 07, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: March 31, 2010**

**OR**

**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: 1-13429**

**Simpson Manufacturing Co., Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

**Delaware**  
(State or other jurisdiction of incorporation  
or organization)

**94-3196943**  
(I.R.S. Employer  
Identification No.)

**5956 W. Las Positas Blvd., Pleasanton, CA 94588**

(Address of principal executive offices)

(Registrant's telephone number, including area code): **(925) 560-9000**

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of March 31, 2010: 49,391,387

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

*(In thousands, unaudited)*

	2010	March 31, 2009	December 31, 2009
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 202,843	\$ 158,208	\$ 250,381
Trade accounts receivable, net	93,030	79,383	77,317
Inventories	180,684	225,568	163,754
Deferred income taxes	13,657	13,672	13,970
Assets held for sale	7,887	8,387	7,887
Other current assets	13,054	13,236	16,766
Total current assets	511,155	498,454	530,075
Property, plant and equipment, net	200,975	191,412	187,814
Goodwill	79,608	69,160	81,626
Intangible assets, net	26,889	22,137	28,852
Equity method investment	604	21	748
Other noncurrent assets	16,722	18,225	14,690
Total assets	\$ 835,953	\$ 799,409	\$ 843,805
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Line of credit	\$	\$ 821	\$
Trade accounts payable	25,606	22,232	28,462
Accrued liabilities	29,548	28,873	29,209
Accrued profit sharing trust contributions	1,858	1,973	7,018
Accrued cash profit sharing and commissions	3,508	1,353	2,427
Accrued workers' compensation	4,374	4,299	4,352
Total current liabilities	64,894	59,551	71,468
Long-term liabilities	8,924	9,289	8,553
Total liabilities	73,818	68,840	80,021
Commitments and contingencies (Note 8)			
Stockholders' equity			
Common stock, at par value	493	490	493
Additional paid-in capital	146,711	137,503	146,036
Retained earnings	602,754	592,644	598,493
Accumulated other comprehensive income (loss)	12,177	(68)	18,762
Total stockholders' equity	762,135	730,569	763,784

Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

Total liabilities and stockholders equity	\$	835,953	\$	799,409	\$	843,805
---	----	---------	----	---------	----	---------

The accompanying notes are an integral part of these condensed consolidated financial statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

*(In thousands except per-share amounts, unaudited)*

	Three Months Ended March 31,	
	2010	2009
Net sales	\$ 133,900	\$ 119,323
Cost of sales	78,465	88,610
Gross profit	55,435	30,713
Operating expenses:		
Research and development and other engineering	5,051	4,864
Selling	16,193	16,025
General and administrative	18,145	20,162
	39,389	41,051
Income (loss) from operations	16,046	(10,338)
Loss on equity method investment, before tax	(144)	(193)
Interest income, net	10	102
Income (loss) before income taxes	15,912	(10,429)
Provision for (benefit from) income taxes	6,713	(2,020)
Net income (loss)	\$ 9,199	\$ (8,409)
Net income (loss) per common share		
Basic	\$ 0.19	\$ (0.17)
Diluted	\$ 0.19	\$ (0.17)
Weighted average number of shares outstanding		
Basic	49,388	48,987
Diluted	49,520	48,987
Cash dividends declared per common share	\$ 0.10	\$ 0.10

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Simpson Manufacturing Co., Inc. and Subsidiaries**

**Condensed** Consolidated Statements of Stockholders' Equity

Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

for the three months ended March 31, 2009 and 2010, and nine months ended December 31, 2009

(In thousands except per-share amounts, unaudited)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Par Value	Paid-in	Earnings	Other	
			Capital		Comprehensive	
					Income (Loss)	
Balance, January 1, 2009	48,971	\$ 490	\$ 136,867	\$ 605,950	\$ 5,719	\$ 749,026
Comprehensive loss:						
Net loss				(8,409)		(8,409)
Other comprehensive income:						
Translation adjustment, net of tax of (\$9)					(5,787)	(5,787)
Comprehensive loss						(14,196)
Stock options exercised	8		128			128
Stock compensation			393			393
Tax benefit of options exercised			(185)			(185)
Cash dividends declared on common stock (\$0.10 per share)				(4,897)		(4,897)
Common stock issued at \$27.76 per share for stock bonus	10		300			300
Balance, March 31, 2009	48,989	490	137,503	592,644	(68)	730,569
Comprehensive income:						
Net income				20,626		20,626
Other comprehensive income:						
Translation adjustment, net of tax of (\$28)					18,830	18,830
Comprehensive income						39,456
Stock options exercised	388	3	7,496			7,499
Stock compensation			1,297			1,297
Tax benefit of options exercised			(260)			(260)
Cash dividends declared on common stock, \$0.30 per share				(14,777)		(14,777)
Balance, December 31, 2009	49,377	493	146,036	598,493	18,762	763,784
Comprehensive income:						
Net income				9,199		9,199
Other comprehensive income:						
Translation adjustment, net of tax of \$3					(6,585)	(6,585)
Comprehensive income						2,614
Stock options exercised	4		92			92
Stock compensation			382			382
Tax benefit of options exercised			(76)			(76)
Cash dividends declared on common stock, \$0.10 per share				(4,938)		(4,938)
Common stock issued at \$26.89 per share for stock bonus	10		277			277
Balance, March 31, 2010	49,391	\$ 493	\$ 146,711	\$ 602,754	\$ 12,177	\$ 762,135

The accompanying notes are an integral part of these condensed consolidated financial statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

*(In thousands, unaudited)*

	Three Months Ended March 31,	
	2010	2009
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 9,199	\$ (8,409)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on sale of assets	389	(111)
Depreciation and amortization	6,276	6,848
Deferred income taxes	225	(1,497)
Noncash compensation related to stock plans	469	557
Loss in equity method investment	144	193
Excess tax benefit of options exercised		(8)
Provision for (recovery of) doubtful accounts	(406)	1,760
Provision for obsolete inventory	477	1,018
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(16,286)	(5,946)
Inventories	(18,922)	23,381
Trade accounts payable	(2,194)	835
Income taxes payable	5,341	(2,965)
Accrued profit sharing trust contributions	(5,165)	(7,556)
Accrued cash profit sharing and commissions	1,126	(880)
Other current assets	(1,339)	(2,374)
Accrued liabilities	936	(4,428)
Long-term liabilities	108	1
Accrued workers compensation	21	13
Other noncurrent assets	95	99
Net cash provided by (used in) operating activities	(19,506)	531
<b>Cash flows from investing activities</b>		
Capital expenditures	(20,293)	(5,895)
Proceeds from sale of capital assets	46	41
Asset acquisitions, net of cash acquired		(1,655)
Loans made to related parties	(1,798)	
Loans repaid by related parties	50	
Net cash used in investing activities	(21,995)	(7,509)
<b>Cash flows from financing activities</b>		
Line of credit borrowings		817
Issuance of common stock	92	128
Excess tax benefit of options exercised		8
Dividends paid	(4,939)	(4,898)
Net cash used in financing activities	(4,847)	(3,945)
Effect of exchange rate changes on cash	(1,190)	(1,619)
Net decrease in cash and cash equivalents	(47,538)	(12,542)
Cash and cash equivalents at beginning of period	250,381	170,750
Cash and cash equivalents at end of period	\$ 202,843	\$ 158,208



**Noncash activity during the period**

Noncash capital expenditures	\$		\$	180
Dividends declared but not paid	\$	4,938	\$	4,897
Issuance of Company's common stock for compensation	\$	277	\$	300

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

1. Basis of Presentation

*Principles of Consolidation*

The consolidated financial statements include the accounts of Simpson Manufacturing Co., Inc. and its subsidiaries (the Company). Investments in 50% or less owned affiliates are accounted for using either cost or the equity method. All significant intercompany transactions have been eliminated.

#### *Interim Period Reporting*

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These interim statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the 2009 Annual Report).

The unaudited quarterly condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the financial information set forth therein, in accordance with GAAP. The year-end condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by GAAP. The Company's quarterly results fluctuate. As a result, the Company believes the results of operations for the interim periods are not necessarily indicative of the results to be expected for any future period.

#### *Revenue Recognition*

The Company recognizes revenue when the earnings process is complete, net of applicable provision for discounts, returns and incentives, whether actual or estimated, based on the Company's experience. This generally occurs when products are shipped to the customer in accordance with the sales agreement or purchase order, ownership and risk of loss pass to the customer, collectibility is reasonably assured and pricing is fixed or determinable. The Company's general shipping terms are F.O.B. shipping point, where title is transferred and revenue is recognized when the products are shipped to customers. When the Company sells F.O.B. destination point, title is transferred and the Company recognizes revenue on delivery or customer acceptance, depending on terms of the sales agreement. Service sales, representing after-market repair and maintenance, engineering activities and software license sales and service, though significantly less than 1% of net sales and not material to the consolidated financial statements, are recognized as the services are completed or the software products and services are delivered. If actual costs of sales returns, incentives and discounts were to significantly exceed the recorded estimated allowance, the Company's sales would be adversely affected.

#### *Net Income (Loss) Per Common Share*

Basic net income (loss) per common share is computed based on the weighted average number of common shares outstanding. Potentially dilutive securities, using the treasury stock method, are included in the diluted per-share calculations for all periods when the effect of their inclusion is dilutive.

The following is a reconciliation of basic earnings per share ( EPS ) to diluted EPS:

(in thousands, except

per-share amounts)

	Three Months Ended, March 31, 2010			Three Months Ended, March 31, 2009		
	Income (Loss)	Shares	Per Share	Income (Loss)	Shares	Per Share
<b>Basic EPS</b>						
Income (loss) available to common stockholders	\$ 9,199	49,388	\$ 0.19	\$ (8,409)	48,987	\$ (0.17)
<b>Effect of Dilutive Securities</b>						
Stock options		132				
<b>Diluted EPS</b>						
Income (loss) available to common stockholders	\$ 9,199	49,520	\$ 0.19	\$ (8,409)	48,987	\$ (0.17)

Anti-dilutive shares attributable to outstanding stock options were excluded from the calculation of diluted net income per share. All potentially dilutive securities were excluded from the diluted loss per share calculation for the three months ended March 31, 2009, because the effect of their inclusion would be antidilutive, or would decrease the reported loss per share. For both the three months ended March 31, 2010 and 2009, 1.1 million shares subject to stock options were anti-dilutive.

#### Accounting for Stock-Based Compensation

The Company maintains two stock option plans under which it may grant incentive stock options and non-qualified stock options, although the Company has granted only non-qualified stock options under these plans. The Simpson Manufacturing Co., Inc. 1994 Stock Option Plan (the 1994 Plan ) is principally for the Company's employees, and the Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan (the 1995 Plan ) is for its independent directors. The Company generally grants options under each of the 1994 Plan and the 1995 Plan once each year. The exercise price per share of each option granted in February 2010 and February 2009 under the 1994 Plan equaled the closing market price per share of the Company's common stock as reported by the New York Stock Exchange on the day preceding the day that the Compensation Committee of the Company's Board of Directors met to approve the grant of the options. The exercise price per share under each option granted under the 1995 Plan is at the fair market value on the date specified in the 1995 Plan. Options vest and expire according to terms established at the grant date. There were no options granted under the 1995 Plan in 2010 or 2009.

Under the 1994 Plan, no more than 16 million shares of the Company's common stock may be sold (including shares already sold) pursuant to all options granted under the 1994 Plan. Under the 1995 Plan, no more than 320 thousand shares of common stock may be sold (including shares already sold) pursuant to all options granted under the 1995 Plan. Shares of common stock issued on exercise of stock options under both of the plans are registered under the Securities Act of 1933. Options granted under the 1994 Plan typically vest evenly over the requisite service period of four years and have a term of seven years. The vesting of options granted under the 1994 Plan will be accelerated if the grantee ceases to be employed by the Company after reaching age 60 or if there is a change in control of the Company. Options granted under the 1995 Plan are fully vested on the date of grant.



The following table represents the Company's stock option activity for the three months ended March 31, 2010 and 2009:

(in thousands)

	Three Months Ended	
	2010	2009
	March 31,	
Stock option expense recognized in operating expenses	\$ 366	\$ 448
Tax benefit of stock option expense in provision for (benefit from) income taxes	110	148
Stock option expense, net of tax	\$ 256	\$ 300
Fair value of shares vested	\$ 382	\$ 393
Proceeds to the Company from the exercise of stock options	\$ 92	\$ 128
Tax benefit from exercise of stock options, including windfall (shortfall) tax benefits, net	\$ (76)	\$ (185)
	At March 31,	
Stock option cost capitalized in inventory	\$ 61	\$ 46

The amounts included in cost of sales, research and development and other engineering, selling, or general and administrative expense depend on the job functions performed by the employees to whom the stock options were granted.

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's experience.

#### *Fair Value of Financial Instruments*

As of March 31, 2010, the Company's investments consisted of only United States Treasury securities and money market funds aggregating \$127.5 million, which are maintained in cash equivalents and are carried at cost, approximating fair value, based on Level 1 inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, as defined in the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC).

#### *Income Taxes*

In general, the Company is required to use an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in an interim period. The income tax expense for the first quarters of both 2010 and 2009, however, has been computed based on those quarters as discrete periods due to the uncertainty regarding the Company's ability to reliably estimate pre-tax income for the remainder of those years, primarily as a result of the continued uncertainty in the construction markets in which the Company operates. The effective tax rate was 42.2% in the first quarter of 2010, which resulted in income tax expense of \$6.7 million. The effective tax rate was 19.4% in the first quarter of 2009,

which, as a result of the loss before taxes in the first quarter of 2009, resulted in income tax benefit of \$2.0 million.

*Recently Issued Accounting Standards*

In May 2009, the FASB issued guidance codified in the Subsequent Events topic of the FASB ASC, which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In February 2010, the FASB amended this guidance to remove the requirement for companies that file or furnish financial statements with the Securities and Exchange Commission to disclose the date through which subsequent events have been evaluated.

2. Trade Accounts Receivable, Net

Trade accounts receivable consist of the following:

*(in thousands)*

	2010	At March 31, 2009	2009	At December 31, 2009
Trade accounts receivable	\$ 100,051	\$ 87,154	\$ 83,892	\$ 83,892
Allowance for doubtful accounts	(4,198)	(5,924)	(4,667)	(4,667)
Allowance for sales discounts and returns	(2,823)	(1,847)	(1,908)	(1,908)
	\$ 93,030	\$ 79,383	\$ 77,317	\$ 77,317

3. Inventories

Inventories consist of the following:

*(in thousands)*

	2010	At March 31, 2009	2009	At December 31, 2009
Raw materials	\$ 75,953	\$ 86,411	\$ 61,408	\$ 61,408
In-process products	20,267	24,890	21,113	21,113
Finished products	84,464	114,267	81,233	81,233
	\$ 180,684	\$ 225,568	\$ 163,754	\$ 163,754

4. Property, Plant and Equipment, Net

Property, plant and equipment, net, consist of the following:

*(in thousands)*



Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

	At March 31,		At December 31,
	2010	2009	2009
Land	\$ 23,543	\$ 22,654	\$ 23,729
Buildings and site improvements	147,446	137,589	148,381
Leasehold improvements	3,819	4,261	3,893
Machinery and equipment	225,594	219,372	226,436
	400,402	383,876	402,439
Less accumulated depreciation and amortization	(220,303)	(197,788)	(216,157)
	180,099	186,088	186,282
Capital projects in progress	20,876	5,324	1,532
	\$ 200,975	\$ 191,412	\$ 187,814

The Company's vacant facility in San Leandro, California, remained classified as an asset held for sale as of March 31, 2010, consistent with the classification at December 31, 2009, and is being actively marketed. The Company, in March 2010, acquired a facility in San Bernadino, California, for \$19.2 million, in which it will consolidate its owned manufacturing and warehouse facilities in Brea, California, and its former leased warehouse in Ontario, California. The Company intends to sell the Brea facilities. These facilities are associated with the connector segment.

5. Investments

*Equity Method Investment*

At March 31, 2010, the Company had a 40.6% equity interest in Keymark Enterprises, LLC ( Keymark ), for which the Company accounts using the equity method. Keymark develops software that assists in designing and engineering residential structures. The Company's relationship with Keymark includes the specification of the

Company's products in the Keymark software. The Company has no obligation to make any additional capital contributions to Keymark.

6. Goodwill and Intangible Assets, Net

Goodwill by segment was as follows:

(in thousands)

	At March 31,		At December 31,
	2010	2009	2009
Connector products	\$ 75,173	\$ 64,749	\$ 77,191
Venting products	4,435	4,411	4,435
Total	\$ 79,608	\$ 69,160	\$ 81,626

Intangible assets, net, by segment were as follows:

(in thousands)

	At March 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Connector products	\$ 36,410	\$ (11,366)	\$ 25,044
Venting products	3,291	(1,446)	1,845
Total	\$ 39,701	\$ (12,812)	\$ 26,889

	At March 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Connector products	\$ 32,546	\$ (12,789)	\$ 19,757
Venting products	2,962	(582)	2,380
Total	\$ 35,508	\$ (13,371)	\$ 22,137

	At December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Connector products	\$ 37,987	\$ (11,182)	\$ 26,805
Venting products	3,291	(1,244)	2,047
Total	\$ 41,278	\$ (12,426)	\$ 28,852

Intangible assets consist primarily of customer relationships, patents, unpatented technology and non-compete agreements. Amortization expense for intangible assets during the three months ended March 31, 2010 and 2009, was \$1.3 million and \$1.2 million, respectively.

At March 31, 2010, estimated future amortization of intangible assets was as follows:

*(in thousands)*

Final nine months of 2010	\$	3,716
2011		4,907
2012		4,023
2013		3,085
2014		2,849
2015		2,111
Thereafter		6,198
	\$	26,889

The changes in the carrying amount of goodwill and intangible assets from December 31, 2009, to March 31, 2010, were as follows:

*(in thousands)*

	<b>Goodwill</b>		<b>Intangible Assets</b>	
Balance at December 31, 2009	\$	81,626	\$	28,852
Amortization				(1,276)
Foreign exchange		(2,018)		(687)
Balance at March 31, 2010	\$	79,608	\$	26,889

7. Debt

Outstanding debt at March 31, 2010 and 2009, and December 31, 2009, and the available lines of credit at March 31, 2010, consisted of the following:

*(dollar amounts in thousands)*

	Available Credit at March 31, 2010	2010	Debt Outstanding at March 31, 2009	at December 31, 2009
Revolving line of credit, interest at LIBOR plus 0.27% (at March 31, 2010, LIBOR plus 0.27% was 0.52%), expires October 2012, commitment fees payable at the annual rate of 0.08% on the unused portion of the facility	\$ 200,000	\$	\$	\$
Revolving line of credit, interest at the bank's base rate plus 3% (at March 31, 2010, the bank's base rate plus 3% was 3.50%), expires December 2010	379			
Revolving lines of credit, interest rates between 1.14% and 3.13%	4,293		821	
Line of credit		\$	\$ 821	\$
Available credit	\$ 204,672			

8. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2009 Annual Report provides information concerning commitments and contingencies. From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The resolution of claims and litigation is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows and results of operations.

The Company's policy with regard to environmental liabilities is to accrue for future environmental assessments and remediation costs when information becomes available that indicates that it is probable that the Company is liable for any related claims and assessments and the amount of the liability is reasonably estimable. The Company does not believe that these matters will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

Corrosion, hydrogen embrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations, misuse, design and assembly flaws, environmental conditions or other factors can contribute to failure of fasteners, connectors, tools and venting products. On occasion, some of the fasteners and connectors that the Company sells have failed, although the Company has not incurred any material liability resulting from those failures. The Company attempts to avoid such failures by establishing and monitoring appropriate product specifications, manufacturing quality control procedures, inspection procedures and information on appropriate installation methods and conditions. The Company subjects its products to extensive testing, with results and conclusions published in Company catalogues and on its websites. Based on test results to date, the Company believes that, generally, if its products are appropriately selected, installed and used in accordance with the Company's guidance, they may be reliably used in appropriate applications.

Four lawsuits (the Hawaii Cases) have been filed against the Company in the Hawaii First Circuit Court: *Alvarez v. Haseko Homes, Inc. and Simpson Manufacturing, Inc.*, Civil No. 09-1-2697-11 (Hawaii Case 1); *Ke Noho Kai Development, LLC v. Simpson Strong-Tie Company, Inc., and Honolulu Wood Treating Co., LTD.*, Hawaii Case No. 09-1-1491-06 SSM (Hawaii Case 2); *North American Specialty Ins. Co. v. Simpson Strong-Tie Company, Inc. and K.C. Metal Products, Inc.*, Case No. 09-1-1490-06 VSM (Hawaii Case 3); and *Charles et al. v. Haseko Homes, Inc. et al. and Third Party Plaintiffs Haseko Homes, Inc. et al. v Simpson Strong-Tie Company, Inc., et al.*, Civil No. 09-1-1932-08 (Hawaii Case 4). Hawaii Case 1 was filed on November 18, 2009. Hawaii Cases 2 and 3 were originally filed on June 30, 2009. Hawaii Case 4 was filed on August 19, 2009. The Hawaii Cases all relate to alleged premature corrosion of the Company's strap tie holdown products installed in buildings in a housing development known as Ocean Pointe in Honolulu, Hawaii, allegedly causing property damage. Hawaii Case 1 is a putative class action brought by the owners of allegedly affected Ocean Pointe houses. Hawaii Case 1 was originally filed as *Kai et al. v. Haseko Homes, Inc., Haseko Construction, Inc. and Simpson Manufacturing, Inc.*, Case No. 09-1-1476, but was voluntarily dismissed and then re-filed with a new representative plaintiff. Hawaii Case 2 is an action by the builders and developers of Ocean Pointe against the Company, claiming that either the Company's strap tie holdowns are defective in design or manufacture or the Company failed to provide adequate warnings regarding the products' susceptibility to corrosion in certain environments. Hawaii Case 3 is a subrogation action brought by the insurance company for the builders and developers against the Company claiming the insurance company expended funds to correct problems allegedly caused by the Company's products. Hawaii Case 4, like Hawaii Case 1, is a putative class action brought by owners of allegedly affected Ocean Pointe homes. In Hawaii Case 4, Haseko Homes, Inc. (Haseko), the developer of the Ocean Pointe development, has brought a third party complaint against the Company alleging that any damages for which Haseko may be liable are actually the fault of the Company. None of the Hawaii Cases alleges a specific amount of damages sought, although each of the Hawaii Cases seeks compensatory damages, and Hawaii Case 1 seeks punitive damages. The Company is currently investigating the facts underlying the claims asserted in the Hawaii Cases, including, among other things, the cause of the alleged corrosion; the severity of any problems shown to exist; the buildings affected; the responsibility of the general contractor, various subcontractors and other construction professionals for the alleged damages; the amount, if any, of damages suffered; and the costs of repair, if needed. At this time, the likelihood that the Company will be found liable for any property damage allegedly suffered and the extent of such liability, if any, are unknown. Based on facts currently known to the Company, the Company believes that all or part of the claims alleged in the Hawaii Cases may be covered by its insurance policies. The Company intends to defend itself vigorously in connection with the Hawaii Cases.

## 9. Stock Option Plans

The Company currently has two stock option plans (see Note 1 Basis of Presentation *Accounting for Stock-Based Compensation* ). Participants are granted stock options only if the applicable Company-wide or profit-center operating goals, or both, established by the Compensation Committee of the Board of Directors at the beginning of the year, are met.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatilities of the Company's common stock measured monthly over a term that is equivalent to the expected life of the option. The expected term of options granted is estimated based on the Company's prior exercise experience and future expectations of the exercise and termination behavior of the grantees. The risk-free rate is based on the yield of United States Treasury zero-coupon bonds with maturities comparable to the expected life in effect at the time of grant. The dividend yield is based on the expected dividend yield on the grant date.

Black-Scholes option pricing model assumptions for options granted in 2010 and 2009 are as follows:

Number of Options Granted (in thousands)	Grant Date	Risk-Free Interest Rate	Dividend Yield	Expected Life	Volatility	Exercise Price	Weighted Average Fair Value
<b>1994 Plan</b>							
148	02/02/10	2.93%	1.62%	6.5 years	36.0%	\$ 24.75	\$ 8.46
24	02/23/09	2.08%	2.48%	6.5 years	30.9%	\$ 16.10	\$ 4.06
29	02/04/09	2.17%	1.88%	6.5 years	30.9%	\$ 21.25	\$ 5.86

No options were granted under the 1995 Plan in 2010 or 2009.

The following table summarizes the Company's stock option activity for the three months ended March 31, 2010:

Non-Qualified Stock Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value* (in thousands)
Outstanding at January 1, 2010	1,792	\$ 31.31		
Granted	148	24.75		
Exercised	(4)	25.43		
Forfeited	(14)	35.91		
Outstanding at March 31, 2010	1,922	\$ 30.78	2.3	\$ 2,862
Outstanding and expected to vest at March 31, 2010	1,911	\$ 30.82	2.3	\$ 2,810
Exercisable at March 31, 2010	1,678	\$ 31.64	1.7	\$ 1,980

\* The intrinsic value represents the amount, if any, by which the fair market value of the underlying common stock exceeds the exercise price of the option, using the closing price per share of \$27.76 as reported by the New York Stock Exchange on March 31, 2010.

The total intrinsic value of options exercised during the three months ended March 31, 2010 and 2009, was \$11 thousand and \$60 thousand, respectively.



A summary of the status of unvested options as of March 31, 2010, and changes during the three months ended March 31, 2010, are presented below:

Unvested Options	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at January 1, 2010	140	\$ 8.57
Granted	148	8.46
Vested	(44)	11.45
Unvested at March 31, 2010	244	\$ 7.98

As of March 31, 2010, \$1.4 million of total unrecognized compensation cost was related to unvested share-based compensation arrangements under the 1994 Plan. This cost is expected to be recognized over a weighted-average period of 3.0 years. Options granted under the 1995 Plan are fully vested and are expensed on the date of grant.

#### 10. Segment Information

The Company is organized into two primary operating segments. The segments are defined by types of products manufactured, marketed and distributed to the Company's customers. The two product segments are connector products and venting products. These segments are differentiated in several ways, including the types of materials, the production processes, the distribution channels and the product applications. Transactions between the two segments were immaterial for each of the periods presented.

The following table illustrates certain measurements used by management to assess the performance of the segments described above as of or for the following periods:

(in thousands)

	Three Months Ended March 31,	
	2010	2009
<i>Net Sales</i>		
Connector products	\$ 123,820	\$ 109,144
Venting products	10,080	10,179
Total	\$ 133,900	\$ 119,323
<i>Income (Loss) from Operations</i>		
Connector products	\$ 18,194	\$ (7,088)
Venting products	(1,299)	(3,260)
Administrative and all other	(849)	10
Total	\$ 16,046	\$ (10,338)

*(in thousands)*

	2010	At March 31, 2009	At December 31, 2009
<i>Total Assets</i>			
Connector products	\$ 668,427	\$ 596,575	\$ 650,796
Venting products	69,526	72,804	71,587
Administrative and all other	98,000	130,030	121,422
Total	\$ 835,953	\$ 799,409	\$ 843,805

Cash collected by the Company's subsidiaries is routinely transferred into the Company's cash management accounts and, therefore, has been included in the total assets of Administrative and all other. Cash and cash equivalent balances in the Administrative and all other segment were \$160.6 million, \$107.2 million, and \$205.1 million, as of March 31, 2010 and 2009, and December 31, 2009, respectively.

#### 11. Subsequent Events

In April 2010, the Company's Board of Directors declared a cash dividend of \$0.10 per share, estimated at \$4.9 million, to be paid on July 29, 2010, to stockholders of record on July 8, 2010.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*This document contains forward-looking statements, based on numerous assumptions and subject to risks and uncertainties. Although the Company believes that the forward-looking statements are reasonable, it does not and cannot give any assurance that its beliefs and expectations will prove to be correct. Many factors could significantly affect the Company's operations and cause the Company's actual results to be substantially different from the Company's expectations. See Part II, Item 1A - Risk Factors. Actual results might differ materially from results suggested by any forward-looking statements in this report. The Company does not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.*

The following is a discussion and analysis of the consolidated financial condition and results of operations for the Company for the three months ended March 31, 2010 and 2009. The following should be read in conjunction with the interim Condensed Consolidated Financial Statements and related Notes appearing elsewhere herein.

Results of Operations for the Three Months Ended March 31, 2010, Compared

## Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

with the Three Months Ended March 31, 2009

Net sales increased 12.2% to \$133.9 million in the first quarter of 2010 from \$119.3 million in the first quarter of 2009. The Company had net income of \$9.2 million for the first quarter of 2010 compared to a net loss of \$8.4 million for the first quarter of 2009. Diluted net income per common share was \$0.19 for the first quarter of 2010 compared to a diluted net loss per common share of \$0.17 for the first quarter of 2009.

In the first quarter of 2010, sales increased throughout North America and Europe. The growth in the United States was strongest in the midwestern, western (excluding California) and northeastern regions, while sales in California and the southeastern states were flat as compared to the first quarter of 2009. Sales in Asia, although relatively small, have increased as Simpson Strong-Tie has recently expanded its presence in the region. Simpson Strong-Tie's first quarter sales increased 13.4% from the same quarter last year, while Simpson Dura-Vent's sales were down slightly. Simpson Strong-Tie's sales to dealer distributors and home centers increased as homebuilding and general economic conditions compared favorably to the first quarter of 2009. Sales increased across most of Simpson Strong-Tie's major product lines, including those used in new home construction. Sales of Simpson Dura-Vent's product lines were mixed, with decreases in sales of chimney products, pellet vents and special gas vent products, mostly offset by increases in sales of gas vent, Direct-Vent and relining products.

Income from operations increased from a loss of \$10.3 million in the first quarter of 2009 to income of \$16.0 million in the first quarter of 2010. Gross margins increased from 25.7% in the first quarter of 2009 to 41.4% in the first quarter of 2010. The increase in gross margins was primarily due to increased absorption of fixed overhead, as a result of higher production volumes, as well as lower manufacturing costs, including lower cost of material, labor and distribution. Steel prices have increased from their recent low levels experienced in mid-2009 as demand has returned to the steel markets. The Company expects steel prices to increase further in 2010 as demand continues to return to the market. The Company's inventories increased 10.3% from \$163.8 million at December 31, 2009, to \$180.7 million at March 31, 2010, primarily due to purchases of raw materials.

General and administrative expense decreased 10.0% from \$20.2 million in the first quarter of 2009 to \$18.1 million in the first quarter of 2010. The decrease was primarily the result of lower bad debt expense of \$2.2 million, decreased legal and professional service expenses of \$0.8 million and various other items. This decrease was partly offset by an increase in cash profit sharing of \$0.8 million and higher administrative personnel expenses of \$0.9 million, including those related to the Aginco acquisition in April 2009. The effective tax rate was 42.2% in the first quarter of 2010, as compared to 19.4% in the first quarter of 2009. As a result of the loss before taxes in the first quarter of 2009, the lower effective tax rate resulted in a smaller benefit than if the Company had a higher effective tax rate. The effective tax rate in the first quarter of 2010 is higher than the statutory rate primarily due to the valuation allowances taken on foreign losses and differences between the U.S. statutory tax rate and local tax rates in countries where the Company operates. In general, the Company is required to use an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in an interim period. The income tax expense for the three month periods ended March 31, 2010 and 2009, however, have been computed based on those periods as discrete periods due to the uncertainty regarding the Company's ability to reliably estimate pre-tax income for the remainder of each year. The Company cannot reliably estimate pre-tax income for the remainder of 2010 or for the full year, primarily due to the continued uncertainty in the construction markets in which the Company operates.

**Connector Products**   *Simpson Strong-Tie*

Simpson Strong-Tie's net sales increased 13.4% to \$123.8 million in the first quarter of 2010 from \$109.1 million in the first quarter of 2009. Simpson Strong-Tie accounted for 92.5% of the Company's total net sales in the first quarter of 2010, up from 91.5% in the first quarter of 2009. The increase in net sales at Simpson Strong-Tie resulted primarily from an increase in sales volume, although average prices decreased 6.0% as compared to the first quarter of 2009. In the first quarter of 2010, sales increased throughout North America and Europe. The growth in the United States was strongest in the midwestern, western (excluding California) and northeastern regions, while sales in California and the southeastern states were flat as compared to the first quarter of 2009. Sales in Asia, although relatively small, have increased as Simpson Strong-Tie has recently expanded its presence in the region. Simpson Strong-Tie's sales to dealer distributors and home centers increased as homebuilding and general economic conditions compared favorably to the first quarter of 2009. Sales increased across most of Simpson Strong-Tie's major product lines, including those used in new home construction.

Simpson Strong-Tie's income from operations increased to \$18.2 million in the first quarter of 2010 from a loss of \$7.1 million in the first quarter of 2009. Gross margin increased to 43.5% in the first quarter of 2010 from 28.1% in the first quarter of 2009. This increase was primarily due to increased absorption of fixed overhead, as a result of higher production volumes, and cost-cutting measures, as well as lower manufacturing costs, including lower costs of material, labor and distribution.

Simpson Strong-Tie's general and administrative expense decreased 13.4% from \$18.5 million in the first quarter of 2009 to \$16.1 million in the first quarter of 2010, primarily due to a \$2.1 million decrease in bad debt expense, and a \$0.7 million decrease in administrative personnel expenses, related in part to cost-cutting measures. These decreases were partly offset by an increase of \$0.4 million in cash profit sharing, due to increased operating profits.

For its European operations, Simpson Strong-Tie recorded a loss from operations of \$1.8 million in the first quarter of 2010 compared to a loss from operations of \$4.2 million in the first quarter of 2009.

**Venting Products**   *Simpson Dura-Vent*

Simpson Dura-Vent's net sales decreased 1.0% from \$10.2 million in the first quarter of 2009 to \$10.1 million in the first quarter of 2010. Simpson Dura-Vent accounted for 7.5% of the Company's total net sales in the first quarter of 2010, a decrease from 8.5% in the first quarter of 2009. The decrease in net sales at Simpson Dura-Vent resulted primarily from a decrease in sales volume, as average prices were flat as compared to the first quarter of 2009. In the first quarter of 2010, sales of Simpson Dura-Vent's product lines were mixed, with decreases in sales of chimney products, pellet vents and special gas vent products, mostly offset by increases in sales of gas vent, Direct-Vent and relining products.

Simpson Dura-Vent's loss from operations decreased from \$3.3 million in the first quarter of 2009 to \$1.3 million in the first quarter of 2010. Gross margin increased to 15.8% in the first quarter of 2010 from 0.9% in the first quarter of 2009, primarily due to lower costs of material, labor and distribution, slightly offset by higher fixed overhead costs.

## Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

Simpson Dura-Vent's general and administrative expense decreased 24.6% from \$1.7 million in the first quarter of 2009 to \$1.3 million in the first quarter of 2010, which was primarily due to an overall reduction in departmental spending.

### Critical Accounting Policies and Estimates

The Company did not make any significant changes to its critical accounting policies and estimates during the three months ended March 31, 2010, from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See Note 1, Basis of Presentation *Recently Issued Accounting Standards*, to the Company's Condensed Consolidated Financial Statements appearing elsewhere in this report regarding recently issued accounting standards.

Liquidity and Sources of Capital





## Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

As of March 31, 2010, working capital was \$446.3 million as compared to \$438.9 million at March 31, 2009, and \$458.6 million at December 31, 2009. The decrease in working capital from December 31, 2009, was primarily due to a \$47.5 million decrease in cash and cash equivalents, a \$3.7 million decrease in other current assets, and a \$1.1 million increase in accrued cash profit sharing and commissions. Partly offsetting these decreases to working capital were increases in inventories and net trade accounts receivable of \$16.9 million and \$15.7 million, respectively, and decreases in accrued profit sharing trust contributions and trade accounts payable of \$5.2 million and \$2.9 million, respectively. Net trade accounts receivable increased 20.3% from December 31, 2009, as a result of increased sales in the latter part of the first quarter of 2010 compared to the latter part of the fourth quarter of 2009. Raw material inventories increased 23.7% from December 31, 2009, and in-progress and finished goods inventories increased 2.3% over the same period. The balance of the change in working capital was due to the fluctuation of various other asset and liability accounts, none of which was individually material. The working capital change and changes in noncurrent assets and liabilities, combined with net income of \$9.2 million and noncash expenses, primarily depreciation, amortization and stock-based compensation charges totaling \$6.7 million, resulted in net cash used by operating activities of \$19.5 million. As of March 31, 2010, the Company had unused credit facilities available of \$204.7 million.

The Company used \$22.0 million in its investing activities, primarily for the acquisition, in March 2010, of a manufacturing and distribution facility in San Bernadino, California, for \$19.2 million. The Company will consolidate its owned manufacturing and warehouse facilities in Brea, California, and its former leased warehouse in Ontario, California, into the new facility. The Company intends to sell the Brea facilities. The relocation is planned to be completed in 2011. In January 2010, the Company also used \$1.8 million to make a new loan and adjust an existing loan to related parties. These loans, to entities related to Keymark, bear interest at an annual rate of 5.5%, payable monthly, and the principal amounts will be due and payable in February 2013, or earlier if Keymark is sold. These loans are backed by real property deeds of trust. The Company estimates that its full-year capital spending will total \$28 million in 2010.

The Company has classified its vacant facility in San Leandro, California, as an asset held for sale and is actively marketing the facility.

The Company's financing activities used net cash of \$4.8 million. The payment of cash dividends in the amount of \$4.9 million was the primary use of cash. Cash was provided from the issuance of the Company's common stock through the exercise of stock options totaling \$0.1 million. In April 2010, the Company's Board of Directors declared a cash dividend of \$0.10 per share, estimated at \$4.9 million, to be paid on July 29, 2010, to stockholders of record on July 8, 2010.

The Company believes that cash generated by operations and borrowings available under its credit facility will be sufficient for the Company's working capital needs and planned capital expenditures for the next 12 months. Depending, however, on the Company's future growth and possible acquisitions, it may become necessary to secure additional sources of financing, which may not be available on reasonable terms, or at all.

The Company believes that the effect of inflation on the Company has not been material in recent years, as general inflation rates have remained relatively low. Because, however, the Company's main raw material is steel, increases in steel prices may adversely affect the Company's gross margins if it cannot recover the higher costs through price increases.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company has foreign exchange rate risk in its international operations, primarily Europe and Canada, and through purchases from foreign vendors. The Company does not currently hedge this risk. If the exchange rate were to change by 10% in any one country or currency where the Company has operations, the change in net income would not be material to the Company's operations as a whole. The translation adjustment resulted in a decrease in accumulated other comprehensive income of \$6.6 million for the three months ended March 31, 2010, primarily due to the effect of the strengthening of the United States dollar in relation to most European currencies partly offset by the weakening of the United States dollar in relation to the Canadian currency.



#### Item 4. Controls and Procedures.

*Disclosure Controls and Procedures.* As of March 31, 2010, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was performed under the supervision and with the participation of the Company's management, including the chief executive officer ( CEO ) and the chief financial officer ( CFO ). Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective as of that date, at the reasonable assurance level, in ensuring that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and in seasonably alerting them to material information required to be included in this report.

The Company's management, including the CEO and the CFO, does not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the facts that there are resource constraints and that the benefits of controls must be considered relative to their costs. The inherent limitations in an internal control system include the realities that judgments can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of internal control is also based in part on assumptions about the likelihood of future events, and there can be only reasonable, not absolute, assurance that any design will succeed in achieving its stated goals under all potential events and conditions. Over time, controls may become inadequate because of changes in circumstances, or the degree of compliance with the policies and procedures may deteriorate.

*Changes in Internal Control over Financial Reporting.* During the three months ended March 31, 2010, the Company made no changes to its internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## PART II OTHER INFORMATION

#### Item 1. Legal Proceedings.

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business.

Four lawsuits (the Hawaii Cases ) have been filed against the Company in the Hawaii First Circuit Court: *Alvarez v. Haseko Homes, Inc. and Simpson Manufacturing, Inc.*, Civil No. 09-1-2697-11 ( Hawaii Case 1 ); *Ke Noho Kai Development, LLC v. Simpson Strong-Tie Company, Inc., and Honolulu Wood Treating Co., LTD.*, Hawaii Case No. 09-1-1491-06 SSM ( Hawaii Case 2 ); *North American Specialty Ins. Co. v. Simpson Strong-Tie Company, Inc. and K.C. Metal Products, Inc.*, Case No. 09-1-1490-06 VSM ( Hawaii Case 3 ); and *Charles et al. v. Haseko Homes, Inc. et al. and Third Party Plaintiffs Haseko Homes, Inc. et al. v. Simpson Strong-Tie Company, Inc., et al.*, Civil No. 09-1-1932-08 ( Hawaii Case 4 ). Hawaii Case 1 was filed on November 18, 2009. Hawaii Cases 2 and 3 were originally filed on June 30, 2009. Hawaii Case 4 was filed on August 19, 2009. The Hawaii Cases all relate to alleged premature corrosion of the Company's strap tie holdown products installed in buildings in a housing development known as Ocean Pointe in Honolulu, Hawaii, allegedly causing property damage. Hawaii Case 1 is a putative class action brought by the owners of allegedly affected Ocean Pointe houses. Hawaii Case 1 was originally filed as *Kai et al. v. Haseko Homes, Inc., Haseko Construction, Inc. and Simpson Manufacturing, Inc.*, Case No. 09-1-1476, but was voluntarily dismissed and then re-filed with a new representative plaintiff. Hawaii Case 2 is an action by the builders and developers of Ocean Pointe against the Company, claiming

## Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

that either the Company's strap tie holdowns are defective in design or manufacture or the Company failed to provide adequate warnings regarding the products' susceptibility to corrosion in certain environments. Hawaii Case 3 is a subrogation action brought by the insurance company for the builders and developers against the Company claiming the insurance company expended funds to correct problems allegedly caused by the Company's products. Hawaii Case 4, like Hawaii Case 1, is a putative class action brought by owners of allegedly affected Ocean Pointe homes. In Hawaii Case 4, Haseko Homes, Inc. ( Haseko ), the developer of the Ocean Pointe development, has brought a third party complaint against the Company alleging that any damages for which Haseko may be liable are actually the fault of the Company. None of the Hawaii Cases alleges a specific amount of damages sought, although each of the Hawaii

Cases seeks compensatory damages, and Hawaii Case 1 seeks punitive damages. The Company is currently investigating the facts underlying the claims asserted in the Hawaii Cases, including, among other things, the cause of the alleged corrosion; the severity of any problems shown to exist; the buildings affected; the responsibility of the general contractor, various subcontractors and other construction professionals for the alleged damages; the amount, if any, of damages suffered; and the costs of repair, if needed. At this time, the likelihood that the Company will be found liable for any property damage allegedly suffered and the extent of such liability, if any, are unknown. Based on facts currently known to the Company, the Company believes that all or part of the claims alleged in the Hawaii Cases may be covered by its insurance policies. The Company intends to defend itself vigorously in connection with the Hawaii Cases.

The Company is not engaged in any other legal proceedings as of the date hereof, which the Company expects individually or in the aggregate to have a material adverse effect on the Company's financial condition, cash flows or results of operations. The resolution of claims and litigation, however, is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows or results of operations.

#### **Item 1A. Risk Factors**

We are affected by risks specific to us, as well as risks that affect all businesses operating in global markets. Some of the significant factors that could materially adversely affect our business, financial condition and operating results appear in **Item 1A. Risk Factors** of our most recent Annual Report on Form 10-K (available at [www.simpsonmfg.com/docs/10K-2009.pdf](http://www.simpsonmfg.com/docs/10K-2009.pdf) or [www.sec.gov](http://www.sec.gov)).

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

In December 2009, the Board of Directors authorized the Company to repurchase up to \$50.0 million of the Company's common stock. This replaced the \$50.0 million repurchase authorization from December 2008. The authorization will remain in effect through the end of 2010. The Company did not repurchase any of its common stock in the first three months of 2010.

#### **Item 6. Exhibits.**

The following exhibits are either incorporated by reference into this report or filed with this report, as indicated below.

3.1 Certificate of Incorporation of Simpson Manufacturing Co., Inc., as amended, is incorporated by reference to Exhibit 3.1 of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.

3.2 Bylaws of Simpson Manufacturing Co., Inc., as amended through August 1, 2008, are incorporated by reference to Exhibit 3.2 of its Current Report on Form 8-K dated August 4, 2008.

## Edgar Filing: SIMPSON MANUFACTURING CO INC /CA/ - Form 10-Q

4.1 Amended Rights Agreement dated as of June 15, 2009, between Simpson Manufacturing Co., Inc. and Computershare Trust Company, N.A., which includes as Exhibit B the form of Rights Certificate, is incorporated by reference to Exhibit 4.1 of Simpson Manufacturing Co., Inc.'s Registration Statement on Form 8-A/A dated June 15, 2009.

4.2 Certificate of Designation, Preferences and Rights of Series A Participating Preferred Stock of Simpson Manufacturing Co., Inc., dated July 30, 1999, is incorporated by reference to Exhibit 4.2 of its Registration Statement on Form 8-A dated August 4, 1999.

10.1 Simpson Manufacturing Co., Inc. 1994 Stock Option Plan, as amended through February 13, 2008, is incorporated by reference to Exhibit 10.1 of Simpson Manufacturing Co., Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

10.2 Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan, as amended through November 18, 2004, is incorporated by reference to Exhibit 10.2 of Simpson Manufacturing Co., Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

10.3 Simpson Manufacturing Co., Inc. Executive Officer Cash Profit Sharing Plan, as amended through February 25, 2008, is incorporated by reference to Exhibit 10.3 of Simpson Manufacturing Co., Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

10.4 Credit Agreement dated as of October 10, 2007, among Simpson Manufacturing Co., Inc. as Borrower, the Lenders party thereto, Wells Fargo Bank as Agent, and Simpson Dura-Vent Company, Inc., Simpson Strong Tie Company Inc., and Simpson Strong-Tie International, Inc. as Guarantors, is incorporated by reference to Exhibit 10.1 of Simpson Manufacturing Co., Inc. s Current Report on Form 8-K dated October 15, 2007.

10.5 Form of Indemnification Agreement between Simpson Manufacturing Co., Inc. and its directors and executive officers, as well as the officers of Simpson Strong-Tie Company Inc. and Simpson Dura-Vent Company, Inc., is incorporated by reference to Exhibit 10.2 of Simpson Manufacturing Co., Inc. s Annual Report on Form 10-K for the year ended December 31, 2004.

10.6 Compensation of Named Executive Officers of Simpson Manufacturing Co., Inc. is incorporated by reference to Exhibit 10 of Simpson Manufacturing Co., Inc. s Current Report on Form 8-K dated October 2, 2009.

10.7 Compensation of Named Executive Officers is incorporated by reference to Exhibit 10 of Simpson Manufacturing Co., Inc. s Current Report on Form 8-K dated December 18, 2009.

31. Rule 13a-14(a)/15d-14(a) Certifications are filed herewith.

32. Section 1350 Certifications are filed herewith.

99.1 Simpson Manufacturing Co., Inc. 1994 Employee Stock Bonus Plan, as amended through November 18, 2004, is incorporated by reference to Exhibit 99.1 of Simpson Manufacturing Co., Inc. s Annual Report on Form 10-K for the year ended December 31, 2007.

**SIGNATURES**

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

**Simpson Manufacturing Co., Inc.**  
(Registrant)

**DATE:** May 7, 2010

By /s/Karen Colonias  
Karen Colonias  
Chief Financial Officer  
(principal accounting and financial officer)