

SIMPSON MANUFACTURING CO INC /CA/
Form 10-Q
November 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x

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

For the quarterly period ended: September 30, 2008

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: 1-13429

Simpson Manufacturing Co., Inc.

(Exact name of registrant as specified in its charter)

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

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

(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 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 September 30, 2008: 48,635,796

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, unaudited)

	2008	September 30, 2007	December 31, 2007
ASSETS			
Current assets			
Cash and cash equivalents	\$ 163,857	\$ 156,928	\$ 186,142
Trade accounts receivable, net	125,875	126,588	88,340
Inventories	251,647	221,318	218,342
Deferred income taxes	11,745	12,158	11,623
Assets held for sale	8,429	9,704	9,677
Other current assets	7,191	7,153	8,753
Total current assets	568,744	533,849	522,877
Property, plant and equipment, net	195,062	197,096	198,117
Goodwill	75,799	67,576	57,418
Intangible assets, net	22,376	24,430	23,239
Other noncurrent assets	16,720	13,917	16,028
Total assets	\$ 878,701	\$ 836,868	\$ 817,679
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Line of credit	\$ 629	\$ 772	\$ 1,029
Trade accounts payable	46,113	38,054	27,226
Accrued liabilities	39,835	44,925	39,188
Income taxes payable	3,593		
Accrued profit sharing trust contributions	7,603	6,880	8,651
Accrued cash profit sharing and commissions	10,313	9,723	4,129
Accrued workers' compensation	4,116	3,448	4,116
Total current liabilities	112,202	103,802	84,339
Other long-term liabilities	10,607	9,552	9,940
Total liabilities	122,809	113,354	94,279
Commitments and contingencies (Note 7)			
Stockholders' equity			
Common stock, at par value	486	485	485
Additional paid-in capital	130,032	124,088	126,119
Retained earnings	609,010	575,868	571,499
Accumulated other comprehensive income	16,364	23,073	25,297
Total stockholders' equity	755,892	723,514	723,400

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

Total liabilities and stockholders' equity	\$	878,701	\$	836,868	\$	817,679
--	----	---------	----	---------	----	---------

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 219,823	\$ 217,265	\$ 606,742	\$ 641,707
Cost of sales	130,143	136,055	376,939	395,512
Gross profit	89,680	81,210	229,803	246,195
Operating expenses (income):				
Research and development and other engineering	5,662	4,987	16,375	15,710
Selling	21,323	18,271	63,264	56,478
General and administrative	25,555	22,991	67,213	68,967
Gain on sale of assets	(41)	(561)	(58)	(654)
	52,499	45,688	146,794	140,501
Income from operations	37,181	35,522	83,009	105,694
Loss in equity method investment, before tax		(59)		(33)
Interest income, net	579	1,370	2,213	4,168
Income before income taxes	37,760	36,833	85,222	109,829
Provision for income taxes	14,398	14,186	33,126	41,574
Net income	\$ 23,362	\$ 22,647	\$ 52,096	\$ 68,255
Net income per common share				
Basic	\$ 0.48	\$ 0.47	\$ 1.07	\$ 1.41
Diluted	\$ 0.48	\$ 0.46	\$ 1.06	\$ 1.40
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Number of shares outstanding				
Basic	48,612	48,500	48,593	48,449
Diluted	48,946	48,979	48,939	48,923

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

for the nine months ended September 30, 2007 and 2008 and three months ended December 31, 2007

(In thousands except per-share amounts, unaudited)

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Income	Stock	
Balance, January 1, 2007	48,412	\$ 484	\$ 114,535	\$ 526,346	\$ 11,494	\$	\$ 652,859
Comprehensive income:							
Net income				68,255			68,255
Other comprehensive income:							
Translation adjustment, net of tax of \$156					11,579		11,579
Comprehensive income							79,834
Stock options exercised	230	2	4,426				4,428
Stock compensation			4,275				4,275
Tax benefit of options exercised			545				545
Cash dividends declared on common stock (\$0.30 per share)				(14,543)			(14,543)
Common stock issued at \$31.65 per share for stock bonus	10		307				307
Repurchase of common stock	(123)					(4,191)	(4,191)
Retirement of common stock		(1)		(4,190)		4,191	
Balance, September 30, 2007	48,529	485	124,088	575,868	23,073		723,514
Comprehensive income:							
Net income				487			487
Other comprehensive income:							
Translation adjustment, net of tax of (\$95)					2,224		2,224
Comprehensive income							2,711
Stock options exercised	23		404				404
Stock compensation			1,618				1,618
Tax benefit of options exercised			9				9
Cash dividends declared on common stock (\$0.10 per share)				(4,856)			(4,856)
Balance, December 31, 2007	48,552	485	126,119	571,499	25,297		723,400
Comprehensive income:							
Net income				52,096			52,096
Other comprehensive income:							
Translation adjustment, net of tax of (\$317)					(8,933)		(8,933)
Comprehensive income							43,163
Stock options exercised	75	1	1,380				1,381
Stock compensation			2,309				2,309
Tax benefit of options exercised			(23)				(23)
Cash dividends declared on common stock (\$0.30 per share)				(14,585)			(14,585)
Common stock issued at \$26.59 per share for stock bonus	9		247				247
Balance, September 30, 2008	48,636	\$ 486	\$ 130,032	\$ 609,010	\$ 16,364	\$	\$ 755,892

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)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 52,096	\$ 68,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets	(58)	(654)
Depreciation and amortization	22,634	21,616
Impairment of long-lived assets		465
Deferred income taxes	(505)	(3,033)
Noncash compensation related to stock plans	2,715	4,614
Loss in equity method investment		33
Excess tax benefit of options exercised	(118)	(690)
Provision for (recovery of) doubtful accounts	7	182
Provision for obsolete inventory		2,966
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(36,078)	(24,590)
Inventories	(27,616)	3,930
Trade accounts payable	15,679	13,808
Income taxes payable	6,206	2,309
Accrued profit sharing trust contributions	(991)	(1,838)
Accrued cash profit sharing and commissions	6,223	1,856
Other current assets	(858)	(2,046)
Accrued liabilities	(454)	5,350
Other long-term liabilities	631	(808)
Accrued workers compensation		(264)
Other noncurrent assets	(2,931)	(3,775)
Net cash provided by operating activities	36,582	87,686
Cash flows from investing activities		
Capital expenditures	(10,326)	(30,108)
Proceeds from sale of capital assets	2,674	3,132
Asset acquisitions, net of cash acquired	(34,028)	(42,354)
Net cash used in investing activities	(41,680)	(69,330)
Cash flows from financing activities		
Line of credit borrowings	3,695	6,756
Repayment of line of credit borrowings	(4,101)	(6,687)
Repurchase of common stock		(4,191)
Issuance of common stock	1,381	4,428
Excess tax benefit of options exercised	118	690
Dividends paid	(14,576)	(13,562)
Net cash used in financing activities	(13,483)	(12,566)
Effect of exchange rate changes on cash	(3,704)	2,839
Net increase (decrease) in cash and cash equivalents	(22,285)	8,629
Cash and cash equivalents at beginning of period	186,142	148,299
Cash and cash equivalents at end of period	\$ 163,857	\$ 156,928

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

Noncash activity during the period

Noncash capital expenditures	\$	135	\$	1,001
Dividends declared but not paid	\$	4,863	\$	4,854
Issuance of Company's common stock for compensation	\$	247	\$	307
Noncash asset acquisition	\$	1,457	\$	6,058

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 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 2007 Annual Report on Form 10-K (the 2007 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 accounting principles generally accepted in the United States of America. The year-end condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America. 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 aftermarket repair and maintenance and engineering activities, though significantly less than 1% of net sales and not material to the consolidated financial statements, are recognized as the services are completed. If the actual costs of sales returns, incentives, and discounts were to significantly exceed the recorded estimated allowance, the Company's sales would be adversely affected.

Allowance for Doubtful Accounts

The Company assesses the collectibility of specific customer accounts that would be considered doubtful based upon the customer's financial condition, payment history, credit rating and other factors that the Company considers relevant, or accounts that the Company assigns for collection. The Company reserves for the portion of those outstanding balances that the Company believes it is not likely to collect based on historical collection experience. The Company also reserves 100% of the amount that it deems potentially uncollectible due to a customer's bankruptcy or deteriorating financial condition. If the financial condition of the Company's customers were to deteriorate, resulting in inability to make payments, additional allowances may be required.

Net Income Per Common Share

Basic net income 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 net income (earnings) per share (EPS), to diluted EPS:

(in thousands, except per-share amounts)	Three Months Ended, September 30, 2008			Three Months Ended, September 30, 2007		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS						
Income available to common stockholders	\$ 23,362	48,612	\$ 0.48	\$ 22,647	48,500	\$ 0.47
Effect of Dilutive Securities						
Stock options		334			479	(0.01)
Diluted EPS						
Income available to common stockholders	\$ 23,362	48,946	\$ 0.48	\$ 22,647	48,979	\$ 0.46
(in thousands, except per-share amounts)	Nine Months Ended, September 30, 2008			Nine Months Ended, September 30, 2007		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic EPS						
Income available to common stockholders	\$ 52,096	48,593	\$ 1.07	\$ 68,255	48,449	\$ 1.41
Effect of Dilutive Securities						
Stock options		346	(0.01)		474	(0.01)
Diluted EPS						
Income available to common stockholders	\$ 52,096	48,939	\$ 1.06	\$ 68,255	48,923	\$ 1.40

Anti-dilutive shares attributable to outstanding stock options were excluded from the calculation of diluted net income per share. For the three months ended September 30, 2008 and 2007, 1.0 million and 1.1 million shares subject to stock options were anti-dilutive, respectively. For both the nine months ended September 30, 2008 and 2007, 1.1 million shares subject to stock options were anti-dilutive.

Accounting for Stock-Based Compensation

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

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 exercise price per share under each option granted in April and February 2008 and February 2007 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 for the day preceding the date that the Company's Board of Directors approved the grant. 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.

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. 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 and nine months ended September 30, 2008 and 2007:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Stock option expense recognized in operating expenses	\$ 772	\$ 1,385	\$ 2,473	\$ 4,347
Tax benefit of stock option expense in provision for income taxes	305	534	975	1,647
Stock option expense, net of tax	\$ 467	\$ 851	\$ 1,498	\$ 2,700
Fair value of shares vested	\$ 769	\$ 1,402	\$ 2,309	\$ 4,275
Proceeds to the Company from the exercise of stock options	\$ 640	\$ 1,501	\$ 1,381	\$ 4,428
Tax benefit from exercise of stock options, including windfall (shortfall) tax benefits	\$ 159	\$ 161	\$ 272	\$ 545
	At September 30,		2007	
	2008			
Stock option cost capitalized in inventory	\$ 88	\$ 192		

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. Shares of common stock issued on exercise of stock options under the plans are registered under the Securities Act of 1933.

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

Statement of Financial Accounting Standards (SFAS) No. 157 establishes a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company's investments consist of only United States Treasury instruments and money market funds aggregating \$61.3 million, which are maintained in cash equivalents and are carried at fair value, approximating cost, based on Level 1 inputs.

Acquisitions

In April 2008, the Company's subsidiary, Simpson Strong-Tie Ireland Limited, purchased certain assets of Liebig International Ltd., an Irish company, Heinrich Liebig Stahldübelwerke GmbH, Liebig GmbH & Co. KG and Liebig International Verwaltungsgesellschaft GmbH, all German companies, Liebig Bolts Limited, an English company, and Liebig International Inc., a Virginia corporation (collectively Liebig). Liebig manufactures mechanical anchor products in Ireland and distributes them primarily throughout Europe through warehouses located in Germany and the United Kingdom. Liebig expands the Company's anchor product offerings in its connector product segment. The purchase price (subject to post-closing adjustment) was \$18.3 million in cash. The Company recorded goodwill of \$6.9 million and intangible assets subject to amortization of \$2.8 million as a result of the acquisition. Tangible assets, including real estate, machinery and equipment, inventory and trade accounts receivable, accounted for the balance of the purchase price, but the purchase price allocation has not been finalized.

In June 2008, the Company's subsidiary, Simpson Dura-Vent Company, Inc., purchased 100% of the equity of ProTech Systems, Inc. (ProTech), a New York corporation. ProTech manufactures venting products in New York and distributes them throughout North America. ProTech expands the Company's product offerings in the venting product segment. The purchase price (subject to post-closing adjustment) was \$7.5 million in cash, including \$1.4 million to be paid in the future, plus an additional earn-out of up to \$2.25 million if certain future performance targets are met. The Company recorded goodwill of \$6.0 million as a result of the acquisition. Net tangible assets, including machinery and equipment, inventory and trade accounts receivable, accounted for the balance of the purchase price, but the purchase price allocation has not been finalized. In July 2008, Simpson Dura-Vent also purchased certain assets to produce the Ventinox stainless steel chimney liner product line from American BOA Inc. ProTech had been the distributor of Ventinox products. The purchase price (subject to post-closing adjustment) was \$1.5 million in cash. The Ventinox purchase price allocation has not been finalized.

In July 2008, Simpson Strong-Tie purchased 100% of the equity of Ahorn-Geräte & Werkzeuge Vertriebs GmbH, a German company, and its subsidiaries Ahorn Upevnovací Technika s.r.o., a Czech company, and Ahorn Pacific Fasteners (Kunshan) Co., Ltd., a Chinese company (collectively Ahorn). The acquisition will broaden Simpson Strong-Tie's collated fastener product line and add production capacity in both Europe and China. The purchase price (subject to post-closing adjustment) was \$8.5 million in cash. The Company recorded goodwill of \$6.8 million as a result of the acquisition. Net tangible assets, including machinery and equipment, inventory and trade accounts receivable, accounted for the balance of the purchase price, but the purchase price allocation has not been finalized.

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

The results of operations of the businesses acquired in 2008 are included in the Company's consolidated results of operations since the respective dates of the acquisitions. Results of operations for periods prior to the 2008 acquisitions were not material to the Company on either an individual or aggregate basis, and accordingly, pro forma results of operations have not been presented.

Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses, including combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after January 1, 2009, regardless of the date of the original business combination. Management has not yet determined the effect, if any, of SFAS No. 141(R) on the Company's financial statements for its fiscal year ending December 31, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51. SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS No. 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. Management has not yet determined the effect, if any, of SFAS No. 160 on the Company's financial statements for its fiscal year ending December 31, 2009.

In September 2006, the FASB finalized SFAS No. 157 which became effective January 1, 2008, except as amended by FASB Staff Position (FSP) Financial Accounting Standard (FAS) 157-1 and FSP FAS 157-2 (see below). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements, but does not require any new fair value measurements. The provisions of SFAS No. 157 were applied prospectively to fair value measurements and disclosures for financial assets and financial liabilities recognized or disclosed at fair value in the financial statements on at least an annual basis beginning in the first quarter of 2008. The adoption of this statement did not have a material effect on the interim condensed consolidated financial statements for fair value measurements made during the first nine months of 2008. While the Company does not expect the adoption of this statement to have a material effect on its interim condensed consolidated financial statements in subsequent reporting periods, the Company continues to monitor any additional implementation guidance that is issued that addresses the fair value measurements for financial and nonfinancial assets and nonfinancial liabilities not disclosed at fair value (at least annually) in the financial statements.

In February 2008, the FASB issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions, and FSP FAS 157-2, Effective Date of FASB Statement No. 157. FSP FAS 157-1 removes leasing from the scope of SFAS No. 157, Fair Value Measurements. FSP FAS 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 allows entities to choose to elect, at specified dates, to measure eligible financial instruments at fair value. Entities must report unrealized gains and losses on items for which the fair value option has been elected in earnings. The Company did not make any fair value elections at the date of adoption of the provisions of SFAS No. 159 for financial assets and financial liabilities or during the three or nine months ended September 30, 2008.

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 expands the disclosure requirements included in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. Management does not expect the adoption of SFAS No. 161 to have a material effect on the Company's financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*. FSP FAS 142-3 removes the requirement of SFAS No. 142 *Goodwill and Other Intangible Assets* for an entity to consider, when determining the useful life of a recognized intangible asset, whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions. FSP FAS 142-3 requires an entity to consider its own historical experience in developing renewal or extension assumptions. In the absence of entity specific experience, FSP FAS 142-3 requires an entity to consider assumptions that a marketplace participant would use about renewal or extension that are consistent with the highest and best use of the asset by a marketplace participant. FSP FAS 142-3 is effective prospectively for all intangible assets acquired after its effective date, with additional disclosures required for all recognized intangible assets as of the effective date. FSP FAS 142-3 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management has not yet determined the effect, if any, of FSP FAS 142-3 on the Company's financial statements for its fiscal year ending December 31, 2009, and the fiscal quarters of that year.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to Auditing Standard (AU) Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of SFAS No. 162 did not have a material effect on the Company's financial statements.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP 157-3 clarifies how FAS 157 should be applied when valuing securities in markets that are not active by illustrating key considerations in determining fair value. It also reaffirms the notion of fair value as the exit price as of the measurement date. FSP 157-3 was effective upon issuance, which included periods for which financial statements have not yet been issued. This new accounting standard has been adopted for the Company's consolidated financial statements ended September 30, 2008. The adoption of FSP157-3 did not have a material effect on the Company's consolidated financial statements.

2. Trade Accounts Receivable, Net

Trade accounts receivable consist of the following:

(in thousands)		At September 30, 2008		2007	At December 31, 2007
Trade accounts receivable	\$	130,919	\$	131,518	\$ 92,879
Allowance for doubtful accounts		(2,222)		(2,363)	(2,724)
Allowance for sales discounts and returns		(2,822)		(2,567)	(1,815)
	\$	125,875	\$	126,588	\$ 88,340

3. Inventories

Inventories consist of the following:

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

(in thousands)	At September 30,		At December 31,	
	2008	2007	2007	
Raw materials	\$ 96,021	\$ 83,702	\$ 82,164	
In-process products	29,246	22,596	23,674	
Finished products	126,380	115,020	112,504	
	\$ 251,647	\$ 221,318	\$ 218,342	

4. Property, Plant and Equipment, Net

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

(in thousands)	At September 30,		At December 31,	
	2008	2007	2007	
Land	\$ 22,856	\$ 19,790	\$ 19,820	
Buildings and site improvements	132,525	127,559	131,166	
Leasehold improvements	4,440	4,182	4,054	
Machinery and equipment	220,448	205,522	213,188	
	380,269	357,053	368,228	
Less accumulated depreciation and amortization	(192,430)	(171,301)	(175,893)	
	187,839	185,752	192,335	
Capital projects in progress	7,223	11,344	5,782	
	\$ 195,062	\$ 197,096	\$ 198,117	

The Company's vacant facility in San Leandro, California, remains classified as an asset held for sale as of September 30, 2008, consistent with the classification at December 31, 2007. This facility is associated with the connector segment. In April 2008, the Company completed the sale of its vacant warehouse in McKinney, Texas, previously classified as an asset held for sale, for \$1.8 million, and no material gain or loss was recorded. The Company has classified a property in Ireland as an asset held for sale in the third quarter of 2008. This property is associated with the connector segment and was sold in November 2008.

In September 2007, an environmental analysis of the San Leandro property indicated that the property had contamination related to spilled fuel that would require an estimated \$0.3 million to remediate. In June 2008, the Company performed additional analysis and determined that an additional \$0.4 million would be needed to remediate the site. The clean-up is expected to be completed in late 2008 or early 2009. The Company expects to sell the property after the remediation is completed.

5. Investments

Equity Method Investment

The Company has a 35% 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 future capital contributions to Keymark, although, in October 2008, the Company made an additional capital contribution of \$0.7 million to allow Keymark to further develop its business. Also in October 2008, the Company lent \$1.3 million to Keymark's other owner, which concurrently contributed that amount to Keymark's capital. The loan bears interest at the annual rate of 6%, has a term of two years, is secured by a pledge of an ownership interest in Keymark of 10% (subject to adjustment), and is non-recourse.

6. Debt

Outstanding debt at September 30, 2008 and 2007, and December 31, 2007, and the available lines of credit at September 30, 2008, consisted of the following:

(dollar amounts in thousands)	Available Credit at September 30, 2008	2008	Debt Outstanding at September 30, 2007	at December 31, 2007
Revolving line of credit, interest at LIBOR plus 0.27% (at September 30, 2008, LIBOR plus 0.27% was 4.38%), 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 2% (at September 30, 2008, the bank's base rate plus 2% was 7.00%), expires October 2009	452			
Revolving lines of credit, interest rates between 5.10% and 6.24%	4,909	629	772	1,029
	205,361	629	772	1,029
Less line of credit and current portion of long-term debt		(629)	(772)	(1,029)
Long-term debt, net of current portion	\$	\$	\$	\$
Available credit	\$ 205,361			

7. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2007 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. See Note 4.

Corrosion, hydrogen embrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations, misuse, 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.

8. Stock Option Plans

The Company currently has two stock option plans (see Note 1 *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 2008 and 2007 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
1994 Plan							
14	04/23/08	3.15%	1.55%	6.0 years	27.1%	\$ 25.74	\$ 6.92
40	02/13/08	2.90%	1.68%	6.0 years	27.1%	\$ 23.78	\$ 6.16
123	02/02/07	4.84%	1.19%	5.9 years	29.0%	\$ 33.62	\$ 11.11

There were no options granted under the 1995 Plan in 2008 or 2007.

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2008:

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, 2008	2,656	\$27.91		
Granted	40	23.78		
Additional granted	14	25.74		
Exercised	(75)	18.41		
Forfeited	(36)	33.48		
Outstanding at September 30, 2008	2,599	\$28.04	2.8	\$8,172
Outstanding and expected to vest at September 30, 2008	2,588	\$28.00	2.8	\$8,167
Exercisable at September 30, 2008	2,268	\$26.86	2.5	\$8,042

* 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 \$27.09 on September 30, 2008.

The total intrinsic value of options exercised during the nine months ended September 30, 2008 and 2007, was \$0.7 million and \$3.2 million, respectively.

A summary of the status of unvested options as of September 30, 2008, and changes during the nine months ended September 30, 2008, are presented below:

Unvested Options	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at January 1, 2008	543	\$ 12.34
Granted	54	6.36
Vested	(258)	11.71
Forfeited	(8)	12.74
Unvested at September 30, 2008	331	\$ 11.84

As of September 30, 2008, \$3.3 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 1.51 years. Options granted under the 1995 Plan are fully vested and are expensed on the date of grant.

9. 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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<i>Net Sales</i>				
Connector products	\$ 192,450	\$ 196,609	\$ 552,332	\$ 592,282
Venting products	27,373	20,656	54,410	49,425
Total	\$ 219,823	\$ 217,265	\$ 606,742	\$ 641,707
<i>Income from Operations</i>				
Connector products	\$ 35,310	\$ 35,101	\$ 88,241	\$ 108,357
Venting products	1,777	14	(3,861)	(2,664)
Administrative and all other	94	407	(1,371)	1
Total	\$ 37,181	\$ 35,522	\$ 83,009	\$ 105,694

(in thousands)	At September 30,		At December 31,	
	2008	2007	2007	2007
<i>Total Assets</i>				
Connector products	\$ 646,677	\$ 597,148	\$ 575,707	

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

Venting products	79,121	83,540	78,541
Administrative and all other	152,903	156,180	163,431
Total	\$ 878,701	\$ 836,868	\$ 817,679

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 \$135.6 million, \$134.1 million, and \$159.8 million, as of September 30, 2008 and 2007, and December 31, 2007, respectively.

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 and nine months ended September 30, 2008 and 2007. 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 September 30, 2008, Compared with the Three Months Ended September 30, 2007

Net sales increased 1.2% from \$217.3 for the third quarter of 2007 to \$219.8 million in the third quarter of 2008. Net income increased 3.2% from \$22.6 million for the third quarter of 2007 to \$23.4 million for the third quarter of 2008. Diluted net income per common share was \$0.48 for the third quarter of 2008 as compared to \$0.46 for the third quarter of 2007.

In the third quarter of 2008, sales declined throughout the United States, with the exception of the northeastern and midwestern regions of the country. California and the western states had the largest decrease in sales. Sales during the quarter in continental Europe increased significantly, partly as a result of the two acquisitions there in 2008. Sales in Canada also increased, while sales were down in the United Kingdom. Simpson Strong-Tie's third quarter sales decreased 2.1% from the same quarter last year, while Simpson Dura-Vent's sales increased 32.5%. Simpson Strong-Tie's sales to contractor distributors and dealer distributors had the largest percentage rate decrease and sales to home centers increased slightly. Reflecting the deterioration of construction markets and economic conditions generally, sales decreased across most of Simpson Strong-Tie's major product lines, particularly those used in new home construction. Sales of the Swan Secure product line, acquired in July 2007, increased significantly and Anchor Systems sales benefited from the acquisition of the Liebig companies in April 2008. Sales of Simpson Dura-Vent's pellet vent, chimney, special gas vent and relining products increased. The increase in special gas vent products and a significant component of the increase in relining products resulted from the acquisition of ProTech Systems, Inc. (ProTech) in June 2008. Sales of its Direct-Vent and gas vent product lines decreased as a result of several factors, including the continuing weakness in new home construction. The Company expects the weakness in new home construction and limited credit availability to continue into, and possibly beyond, 2009.

Income from operations increased 4.7% from \$35.5 million in the third quarter of 2007 to \$37.2 million in the third quarter of 2008. Gross margins increased from 37.4% in the third quarter of 2007 to 40.8% in the third quarter of 2008. The increase in gross margins was primarily due to lower manufacturing and fixed overhead costs, partly offset by higher distribution costs. Depending on future economic conditions, the Company's margins could deteriorate as a result of higher manufacturing and fixed overhead costs. The steel market continues to be dynamic with a high degree of uncertainty. Steel prices have declined somewhat since July 2008, but the Company believes that they may increase again in the near future. Since December 31, 2007, the Company's total inventories have increased 15.3%, primarily as a result of higher cost of steel. If steel prices increase above current levels and the Company is not able to increase its prices sufficiently, the Company's margins could again deteriorate.

Research and development expense increased 13.5% from \$5.0 million in the third quarter of 2007 to \$5.7 million in the third quarter of 2008. This increase was primarily due to a \$0.8 million increase in expenses related to additional personnel in the acquisitions during 2008. Selling expense increased 16.7% from \$18.3 million in the third quarter of 2007 to \$21.3 million in the third quarter of 2008. The increase resulted from a \$3.0 million increase in expenses associated with additional sales and marketing personnel, including those at businesses acquired since July 2007 and those in Asia. General and administrative expense increased 11.2% from \$23.0 million in the third quarter of 2007 to \$25.6 million in the third quarter of 2008. The increase was primarily the result of increased professional service costs of \$1.2 million, which included costs associated with potential acquisitions that were not pursued, an increase in the provision for bad debt of \$0.8 million and higher amortization expense of \$0.2 million, primarily related to intangible assets acquired since July 2007. The effective tax rate was 38.1% in the third quarter of 2008, down from 38.5% in the third quarter of 2007.

Connector Products Simpson Strong-Tie

Simpson Strong-Tie's income from operations increased 0.6% from \$35.1 million in the third quarter of 2007 to \$35.3 million in the third quarter of 2008.

Net Sales

In the third quarter of 2008, Simpson Strong-Tie's net sales decreased 2.1% to \$192.4 million from \$196.6 million in the third quarter of 2007. Simpson Strong-Tie accounted for 87.5% of the Company's total net sales in the third quarter of 2008, a decrease from 90.5% in the third quarter of 2007. The decrease in net sales at Simpson Strong-Tie resulted primarily from a decrease in sales volume, although average prices increased 14.5% as compared to the third quarter of 2007. In the third quarter of 2008, Simpson Strong-Tie's sales declined throughout the United States, with the exception of the northeastern region of the country. California and the western states had the largest decrease in sales. Simpson Strong-Tie's sales during the quarter in continental Europe increased significantly, partly as a result of two acquisitions there in 2008. Sales in Canada also increased, while sales were down in the United Kingdom. Simpson Strong-Tie's sales to contractor distributors and dealer distributors had the largest percentage rate decrease and sales to home centers increased slightly. Reflecting the deterioration of construction markets and economic conditions generally, sales decreased across most of Simpson Strong-Tie's major product lines, particularly those used in new home construction. Sales of the Swan Secure product line, acquired in July 2007, increased significantly and Anchor Systems sales benefited from the acquisition of the Liebig companies in April 2008.

Gross Profit

Simpson Strong-Tie's gross profit increased 8.5% from \$77.5 million in the third quarter of 2007 to \$84.1 million in the third quarter of 2008. As a percentage of net sales, gross profit increased to 43.7% in the third quarter of 2008 from 39.4% in the third quarter of 2007. This increase was primarily due to lower manufacturing and fixed overhead costs, partly offset by higher distribution costs.

Research and Development and Engineering Expense

Simpson Strong-Tie's research and development expense increased 12.5% from \$4.7 million in the third quarter of 2007 to \$5.3 million in the third quarter of 2008. This increase was primarily due to a \$0.7 million increase in expenses related to additional personnel, including those associated with the acquisitions made during 2008.

Selling Expense

Simpson Strong-Tie's selling expense increased 18.5% from \$16.2 million in the third quarter of 2007 to \$19.2 million in the third quarter of 2008. The increase was driven primarily by a \$3.0 million increase in expenses associated with sales and marketing personnel, including those at businesses acquired since July 2007.

General and Administrative Expense

Simpson Strong-Tie's general and administrative expense increased 10.1% from \$22.0 million in the third quarter of 2007 to \$24.3 million in the third quarter of 2008. The increase was primarily due to increased professional service expenses of \$0.6 million, which included costs associated with potential acquisitions that were not pursued and an increase in the provision for bad debt of \$0.7 million.

European Operations

For its European operations, Simpson Strong-Tie recorded income from operations of \$1.4 million in the third quarter of 2008 compared to income from operations of \$2.0 million in the third quarter of 2007.

Other

Simpson Strong-Tie has adjusted production levels downward at various facilities in the United States, and as a result, has reduced its labor force at these facilities.

Venting Products Simpson Dura-Vent

Simpson Dura-Vent's income from operations increased from \$14 thousand in the third quarter of 2007 to \$1.8 million in the third quarter of 2008.

Net Sales

In the third quarter of 2008, Simpson Dura-Vent's net sales increased 32.5% from \$20.7 million in the third quarter of 2007 to \$27.4 million in the third quarter of 2008. Simpson Dura-Vent accounted for 12.5% of the Company's total net sales in the third quarter of 2008, an increase from 9.5% in the third quarter of 2007. The increase in net sales at Simpson Dura-Vent resulted primarily from an increase in sales volume and from average price increases of 4.7% as compared to the third quarter of 2007. In the third quarter of 2008, Simpson Dura-Vent's sales increased throughout the United States, with significant increases in the northeastern region resulting from the acquisition of ProTech, while sales in California decreased as a result of the weakness in new home construction. Sales of pellet vent, chimney, special gas vent and relining products increased. The increase in special gas vent products and a significant component of the increase in relining products resulted from the acquisition of ProTech in June 2008. Sales of its Direct-Vent and gas vent product lines decreased as a result of several factors, including the continuing weakness in new home construction.

Gross Profit

Simpson Dura-Vent's gross profit increased from \$3.2 million in the third quarter of 2007 to \$5.6 million in the third quarter of 2008. This increase was primarily due to lower fixed overhead costs, offset by increased manufacturing and distribution costs.

General and Administrative Expense

Simpson Dura-Vent's general and administrative expense increased 50.7% from \$0.9 million in the third quarter of 2007 to \$1.4 million in the third quarter of 2008. This increase was primarily due to increased expenses associated with administrative personnel of \$0.2 million, including personnel associated with ProTech, and increased professional fees of \$0.1 million.

Administrative and All Other (Company)

Interest Income and Expense

Interest income is generated on the Company's cash and cash equivalents balances. Interest income decreased primarily as a result of lower interest rates. Interest expense includes interest, account maintenance fees and bank charges.

Results of Operations for the Nine Months Ended September 30, 2008, Compared with the Nine Months Ended September 30, 2007

Net sales decreased 5.4% to \$606.7 million in the first nine months of 2008 as compared to net sales of \$641.7 million for the first nine months of 2007. Net income decreased 23.7% to \$52.1 million for the first nine months of 2008 as compared to net income of \$68.3 million for the first nine months of 2007. Diluted net income per common share was \$1.06 for the first nine months of 2008 as compared to \$1.40 for the first nine months of 2007.

In the first nine months of 2008, sales declined throughout the United States, with the exception of the northeastern region of the country. California and the western states had the largest decrease in sales. Sales during the period in continental Europe and in Canada increased significantly, while sales were down in the United Kingdom. Simpson Strong-Tie's first nine months sales decreased 6.7% from the first nine months of last year, while Simpson Dura-Vent's sales increased 10.1%. Simpson Strong-Tie's sales to contractor distributors had the largest percentage rate

decrease and sales to dealer distributors and home centers also decreased. Reflecting the deterioration of construction markets and economic conditions generally, sales decreased across all of Simpson Strong-Tie's major product lines, particularly those used in new home construction. Sales of the Swan Secure product line accounted for approximately 4.8% of Simpson Strong-Tie's first nine months' sales in 2008 and Anchor Systems sales benefited from the acquisition of the Liebig companies. Sales of Simpson Dura-Vent's pellet vent, chimney, special gas vent and relining products increased. Sales of its Direct-Vent and gas vent product lines decreased as a result of several factors, including the continuing weakness in new home construction.

Income from operations decreased 21.5% to \$83.0 million for the first nine months of 2008 from \$105.7 million for the first nine months of 2007. Gross margins decreased from 38.4% for the first nine months of 2007 to 37.9% for the first nine months of 2008. The decrease in gross margins was due primarily to higher distribution costs, partly offset by lower manufacturing costs.

Selling expense increased 12.0% from \$56.5 million in the first nine months of 2007 to \$63.3 million in the first nine months of 2008. The increase was driven primarily by an \$8.1 million increase in expenses associated with sales and marketing personnel, including those at businesses acquired since July 2007. This increase was partly offset by decreases in donations of \$0.5 million, primarily related to the gift made in the second quarter of 2007 to Habitat for Humanity International, Inc., professional services expenses of \$0.3 million and promotional expenses of \$0.3 million. General and administrative expense decreased 2.5% to \$67.2 million in the first nine months of 2008 from \$69.0 million in the first nine months of 2007. The major components of the decrease were decreases in cash profit sharing of \$11.3 million, resulting primarily from decreased operating profit, partly offset by increases in administrative personnel expenses of \$6.5 million, including those at businesses acquired since July 2007, higher amortization expense of \$1.3 million and increased legal and professional service expenses of \$1.8 million. The effective tax rate was 38.9% in the first nine months of 2008, up from 37.9% in the first nine months of 2007. The increase in the effective tax rate was caused by many factors, including a decrease in tax-exempt interest income and the expiration of the federal research and development tax credit in 2008, which was renewed in the fourth quarter of 2008.

Connector Products Simpson Strong-Tie

Simpson Strong-Tie's income from operations decreased 18.6% to \$88.2 million in the first nine months of 2008 from \$108.4 million in the first nine months of 2007.

Net Sales

In the first nine months of 2008, Simpson Strong-Tie's net sales decreased 6.7% to \$552.3 million from \$592.3 million in the first nine months of 2007. Simpson Strong-Tie accounted for 91.0% of the Company's total net sales in the first nine months of 2008, a decrease from 92.3% in the first nine months of 2007. The decrease in net sales at Simpson Strong-Tie resulted from a decrease in sales volume, primarily due to reduced construction activity, although average prices increased 5.5% as compared to the first nine months of 2007. In the first nine months of 2008, Simpson Strong-Tie's sales declined throughout the United States, with the exception of the northeastern region of the country. California and the western states had the largest decrease in sales. Sales during the period in Canada and in continental Europe increased significantly, while sales were down in the United Kingdom. Simpson Strong-Tie's sales to contractor distributors had the largest percentage rate decrease and sales to dealer distributors and home centers also decreased. Reflecting the deterioration of construction markets and economic conditions generally, sales decreased across all of Simpson Strong-Tie's major product lines, particularly those used in new home construction. Sales of the Swan Secure product line accounted for approximately 4.8% of Simpson Strong-Tie's first nine months' sales in 2008 and Anchor Systems sales benefited from the acquisition of the Liebig companies.

Gross Profit

Simpson Strong-Tie's gross profit decreased 6.3% to \$224.4 million in the first nine months of 2008 from \$239.6 million in the first nine months of 2007. As a percentage of net sales, gross profit increased from 40.5% in the first nine months of 2007 to 40.6% in the first nine months of 2008.

Selling Expense

Simpson Strong-Tie's selling expense increased 13.8% from \$51.0 million in the first nine months of 2007 to \$58.0 million in the first nine months of 2008. The increase was driven primarily by an \$8.0 million increase in expenses associated with sales and marketing personnel, including those at businesses acquired since July 2007. This increase was partly offset by a decrease in donations of \$0.5 million and a decrease in professional services of \$0.2 million.

General and Administrative Expense

Simpson Strong-Tie's general and administrative expense decreased 5.0% to \$62.7 million in the first nine months of 2008 from \$66.0 million in the first nine months of 2007. The major components of the decrease were decreases in cash profit sharing of \$11.4 million, resulting primarily from decreased operating profit, a reduction in depreciation expense of \$0.9 million, and adjustments to the provision for doubtful accounts of \$0.4 million. These decreases were partly offset by increases in personnel expenses of \$5.2 million, including those at businesses acquired since July 2007, higher amortization expense of \$1.2 million and increased legal and professional service expenses of \$1.0 million.

European Operations

For its European operations, Simpson Strong-Tie recorded income from operations of \$3.0 million in the first nine months of 2008 compared to income from operations of \$4.7 million in the first nine months of 2007.

Venting Products Simpson Dura-Vent

Simpson Dura-Vent's loss from operations increased from \$2.7 million the first nine months of 2007 to \$3.9 million in the first nine months of 2008.

Net Sales

In the first nine months of 2008, Simpson Dura-Vent's net sales increased 10.1% from \$49.4 million in the first nine months of 2007 to \$54.4 million in the first nine months of 2008. Simpson Dura-Vent accounted for 9.0% of the Company's total net sales in the first nine months of 2008, an increase from 7.7% in the first nine months of 2007. The increase in net sales at Simpson Dura-Vent resulted from an increase in sales volume and from price increases that averaged 3.2% as compared to the first nine months of 2007. In the first nine months of 2008, Simpson Dura-Vent's sales increased throughout the United States, primarily due to significant increases in sales in the northeastern region. Sales decreased significantly in California, while sales in the western states and south/southeast also decreased. Sales of Simpson Dura-Vent's pellet vent, chimney, special gas vent and relining products increased. Sales of its Direct-Vent and gas vent product lines decreased as a result of several factors, including the continuing weakness in new home construction.

Gross Profit

Simpson Dura-Vent's gross profit decreased 9.6 % to \$5.6 million in the first nine months of 2008 from \$6.2 million in the first nine months of 2007. This decrease was primarily due to higher fixed overhead and distribution costs, offset slightly by lower manufacturing costs.

General and Administrative Expense

Simpson Dura-Vent's general and administrative expense increased 23.3% from \$2.8 million in the first nine months of 2007 to \$3.4 million in the first nine months of 2008. This increase was primarily due to increased expenses associated with administrative personnel of \$0.3 million, including personnel associated with ProTech, an increase in the provision for bad debt of \$0.2 million and increased professional fees of \$0.2 million.

Administrative and All Other (Company)

Interest Income and Expense

Interest income is generated on the Company's cash and cash equivalents balances. Interest income decreased primarily as a result of lower interest rates. Interest expense includes interest, account maintenance fees and bank charges.

Critical Accounting Policies and Estimates

Allowance for Doubtful Accounts

In the quarter ended March 31, 2008, the Company revised its calculation for its allowance for doubtful accounts to better reflect its recent collection history. The Company assesses the collectibility of specific customer accounts that would be considered doubtful based upon the customer's financial condition, payment history, credit rating and other factors that the Company considers relevant, or accounts that the Company assigns for collection. The Company reserves for the portion of those outstanding balances that the Company believes it is not likely to collect based on historical collection experience. The Company also reserves 100% of the amount that it deems potentially uncollectible due to a customer's bankruptcy or deteriorating financial condition. If the financial condition of the Company's customers were to deteriorate, resulting in inability to make payments, additional allowances may be required.

Recently Issued Accounting Standards

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, except as amended by FSP FAS 157-1, FSP FAS 157-2 and FSP FAS 157-3, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. See Note 1 to the Company's Condensed Consolidated Financial Statements. The Company has not yet adopted the provisions of SFAS No. 141(R), Business Combinations, SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51, SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, or FSP FAS 142-3, Determination of the Useful Life of Intangible Assets.

Liquidity and Sources of Capital

As of September 30, 2008, working capital was \$456.5 million as compared to \$430.0 million at September 30, 2007, and \$438.5 million at December 31, 2007. The increase in working capital from December 31, 2007, was primarily due to increases in net trade accounts receivable of \$37.5 million and inventories of \$33.3 million and a decrease in accrued profit sharing trust contributions of \$1.0 million. Net trade accounts receivable increased 42.5% from December 31, 2007, while inventories increased 15.3% from December 31, 2007, primarily as a result of the higher costs of steel. The increase in net trade accounts receivable was the result of increased sales in the latter part of the third quarter of 2008 as compared to the latter part of the fourth quarter of 2007. Offsetting this increase in working capital were decreases in cash and cash equivalents of \$22.3 million and increases in trade accounts payable, cash profit sharing and commissions payable, and income taxes payable of

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

\$18.9 million, \$6.2 million, and \$3.6 million, respectively. Assets held for sale decreased by \$1.2 million due to the sale of the vacant warehouse in McKinney, Texas, in April 2008, partly offset by the addition of a property in Ireland that is held for sale. Other decreases to working capital were decreases in other current assets of \$1.6 million. 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 \$52.1 million and noncash expenses, primarily depreciation, amortization and stock-based compensation charges totaling \$25.3 million, resulted in net cash provided by operating activities of \$36.6 million. As of September 30, 2008, the Company had unused credit facilities available of \$205.4 million.

The Company used \$41.7 million in its investing activities, primarily for the Liebig, ProTech, Ahorn and Ventinox acquisitions and capital expenditures at various facilities throughout the United States and in Asia, offset by sales of assets, including the vacant factory in McKinney, Texas. The Company estimates its full year capital spending will total \$15.0 million for 2008.

In April 2008, the Company's newly formed subsidiary, Simpson Strong-Tie Ireland Limited, purchased certain assets of Liebig International Ltd., an Irish company, Heinrich Liebig Stahldübelwerke GmbH, Liebig GmbH & Co. KG and Liebig International Verwaltungsgesellschaft GmbH, all German companies, Liebig Bolts Limited, an English company, and Liebig International Inc., a Virginia corporation (collectively Liebig). Liebig manufactures mechanical anchor products in Ireland and distributes them primarily throughout Europe through warehouses located in Germany and in the United Kingdom. The purchase price (subject to post-closing adjustments) was \$18.3 million in cash.

In June 2008, the Company's subsidiary, Simpson Dura-Vent Company, Inc., purchased 100% of the equity of ProTech Systems, Inc. (ProTech). ProTech manufactures venting products in New York and distributes them throughout North America. The purchase price (subject to post-closing adjustment) was \$7.5 million in cash, including \$1.4 million to be paid in the future, plus an additional earn-out of up to \$2.25 million if certain future performance targets are met. In July 2008, Simpson Dura-Vent also purchased certain assets to produce the Ventinox stainless steel chimney liner product line from American BOA Inc. ProTech had been the distributor of Ventinox products. The purchase price (subject to post-closing adjustment) was \$1.5 million in cash.

In July 2008, Simpson Strong-Tie purchased 100% of the equity of Ahorn-Geräte & Werkzeuge Vertriebs GmbH (Ahorn), a German company, and its subsidiaries in the Czech Republic and China. The acquisition will broaden Simpson Strong-Tie's collated fastener product line and add production capacity in both Europe and China. The purchase price (subject to post-closing adjustment) was \$8.5 million in cash.

The Company's vacant facility in San Leandro, California, and a property in Ireland have been classified as assets held for sale. In September 2007, an environmental analysis of the San Leandro property indicated that it had contamination related to spilled fuel that would require an estimated \$0.3 million to remediate. In June 2008, the Company performed additional analysis and determined that an additional \$0.4 million would be needed to remediate the site. The clean-up is expected to be completed in late 2008 or early 2009. The Company expects to sell the San Leandro property after the remediation is completed. The Company sold the Ireland property in November 2008.

The Company's financing activities used net cash of \$13.5 million. Uses of cash for financing activities were for the payment of cash dividends in the amount of \$14.6 million and payments on the Company's credit lines of its European subsidiaries of \$4.1 million. Cash provided by financing activities was primarily from borrowings on the Company's credit lines of its European subsidiaries of \$3.7 million and the issuance of the Company's common stock through the exercise of stock options totaling \$1.4 million.

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. Depending 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. The Company anticipates further increases in steel prices. If steel prices increase and the Company is not able to increase its prices sufficiently, the Company's margins could deteriorate.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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 where the Company has operations, the change in net income would not be material to the Company's operations taken as a whole. The translation adjustment resulted in a decrease in accumulated other comprehensive income of \$11.5 million and \$8.9 million for the three and nine months ended September 30, 2008, respectively, primarily due to the effect of the strengthening of the United States dollar in relation to the Canadian dollar and most European currencies.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures. As of September 30, 2008, 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.

Changes in Internal Control over Financial Reporting. During the three months ended September 30, 2008, the Company made no changes to its internal control over financial reporting (as defined in Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

The Company is in the process of implementing an integrated accounting software system to be used in its China operations.

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. 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 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 of our most recent Annual Report on Form 10-K (available at www.simpsonmfg.com/docs/10K-2007.pdf or www.sec.gov), and we have added the following additional risk factor:

Additional financing, if needed, to fund our working capital, growth or acquisitions may not be available on reasonable terms, or at all.

If our cash requirements for working capital or to fund our growth increase to a level that exceeds the amount of cash that we generate from operations, or if we should decide to make an acquisition that requires more cash than we have available internally and through our current credit arrangements, we will need to seek additional resources. In that event, we may need to enter into additional or new borrowing arrangements or consider equity financing. Additional or new borrowings may not be available on reasonable terms, or at all, especially under current conditions in the financial markets. Our ability to raise money by selling and issuing shares of our common or preferred stock would depend on general market conditions and the demand for our stock. We may be unable to raise adequate capital on reasonable terms by selling stock. If we sell stock, our existing stockholders could experience substantial dilution. Our inability to secure additional financing could prevent the expansion of our business, internally and through acquisitions.

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

In December 2007, 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 February 2007. The authorization will remain in effect through the end of 2008. There were no repurchases of the Company's common stock in the third quarter of 2008.

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.
- 4.1 Rights Agreement dated as of July 30, 1999, between Simpson Manufacturing Co., Inc. and BankBoston, 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 dated August 4, 1999.
- 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 Stock Purchase Agreement dated as of July 23, 2007, between Hobart K. Swan and Reliance Trust Company, solely in its capacity as independent trustee of the Swan Secure Products, Inc. Employee Stock Ownership Plan and Trust, on the one hand, and Simpson Strong-Tie Company Inc. and Simpson Manufacturing Co., Inc., on the other hand, is incorporated by reference to Exhibit 10.1 of Simpson Manufacturing Co., Inc. s Current Report on Form 8-K dated July 24, 2007.
- 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: November 7, 2008

By /s/Michael J. Herbert

Michael J. Herbert
Chief Financial Officer
(principal accounting and financial officer)