

SIMPSON MANUFACTURING CO INC /CA/  
Form 10-Q  
August 07, 2013

**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: **June 30, 2013**

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 June 30, 2013: 48,569,132



## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

*(In thousands, unaudited)*

	2013	June 30, 2012	December 31, 2012
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 165,275	\$ 162,719	\$ 175,553
Trade accounts receivable, net	126,888	120,119	82,812
Inventories	196,247	185,217	204,124
Deferred income taxes	12,874	12,124	11,473
Assets held for sale	586		593
Other current assets	8,465	14,516	23,499
Total current assets	510,335	494,695	498,054
Property, plant and equipment, net	209,544	208,685	213,452
Goodwill	122,678	127,983	121,981
Intangible assets, net	43,346	41,529	50,598
Other noncurrent assets	11,082	6,013	6,237
Total assets	\$ 896,985	\$ 878,905	\$ 890,322
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities			
Line of credit and notes payable	\$ 1,201	\$ 4,837	\$ 178
Trade accounts payable	29,579	34,740	37,117
Accrued liabilities	44,619	41,491	44,923
Income taxes payable		1,396	
Accrued profit sharing trust contributions	3,229	2,393	5,191
Accrued cash profit sharing and commissions	12,010	10,307	3,414
Accrued workers compensation	5,095	4,861	4,692
Total current liabilities	95,733	100,025	95,515
Long-term liabilities	8,221	5,936	5,239
Total liabilities	103,954	105,961	100,754
Commitments and contingencies (Note 7)			
Stockholders equity			
Common stock, at par value	485	482	483
Additional paid-in capital	187,549	176,809	184,677
Retained earnings	609,538	591,595	592,309
Treasury stock	(9,825)		
Accumulated other comprehensive income	5,284	4,058	12,099

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

Total stockholders' equity		793,031		772,944		789,568
Total liabilities and stockholders' equity	\$	896,985	\$	878,905	\$	890,322

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 195,596	\$ 181,703	\$ 350,130	\$ 340,437
Cost of sales	106,176	98,557	195,736	187,886
Gross profit	89,420	83,146	154,394	152,551
Operating expenses:				
Research and development and other engineering	9,484	9,043	17,792	18,240
Selling	21,652	19,881	43,024	40,314
General and administrative	28,595	27,087	54,884	53,331
Loss (gain) on sale of assets	11	(13)	3	10
	59,742	55,998	115,703	111,895
Income from operations	29,678	27,148	38,691	40,656
Interest income, net	1	58	40	123
Income before taxes	29,679	27,206	38,731	40,779
Provision for income taxes	11,177	11,347	15,434	17,719
Net income	\$ 18,502	\$ 15,859	\$ 23,297	\$ 23,060
Earnings per common share:				
Basic	\$ 0.38	\$ 0.33	\$ 0.48	\$ 0.48
Diluted	\$ 0.38	\$ 0.33	\$ 0.48	\$ 0.48
Number of shares outstanding				
Basic	48,529	48,340	48,532	48,307
Diluted	48,628	48,419	48,627	48,378
Cash dividends declared per common share	\$ 0.125	\$ 0.125	\$ 0.125	\$ 0.25

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

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

**Condensed Consolidated Statements of Comprehensive Income**

*(In thousands, unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 18,502	\$ 15,859	\$ 23,297	\$ 23,060
Other comprehensive loss				
Translation adjustment, net of tax benefit (expense) of \$0, (\$20), (\$84) and \$3, respectively	(999)	(9,951)	(6,815)	(2,725)
Comprehensive income	\$ 17,503	\$ 5,908	\$ 16,482	\$ 20,335

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 six-month periods ended June 30, 2012 and 2013 and for the six months ended December 31, 2012

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

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2012	48,163	\$ 481	\$ 170,483	\$ 580,616	\$ 6,783		\$ 758,363
Net income				23,060			23,060
Translation adjustment, net of tax					(2,725)		(2,725)
Stock options exercised	82	1	1,982				1,983
Stock-based compensation			5,005				5,005
Tax effect of options exercised			(56)				(56)
Shares issued from release of Restricted Stock Units	61		(1,023)				(1,023)
Cash dividends declared on common stock, \$0.25 per share				(12,081)			(12,081)
Common stock issued at \$33.71 per share for stock bonus	12		418				418
Balance, June 30, 2012	48,318	482	176,809	591,595	4,058		772,944
Net income				18,858			18,858
Translation adjustment, net of tax					8,284		8,284
Pension adjustment, net of tax					(243)		(243)
Stock options exercised	103	1	2,941				2,942
Stock-based compensation			5,190				5,190
Tax effect of options exercised			(177)				(177)
Shares issued from release of Restricted Stock Units	1		(86)				(86)
Cash dividends declared on common stock, \$0.375 per share				(18,144)			(18,144)
Balance, December 31, 2012	48,422	483	184,677	592,309	12,099		789,568
Net income				23,297			23,297
Translation adjustment, net of tax					(6,815)		(6,815)
Stock options exercised	31	1	775				776
Stock-based compensation			5,649				5,649
Tax effect of options exercised			(1,850)				(1,850)
Shares issued from release of Restricted Stock Units	107	1	(2,020)				(2,019)
Repurchase of common stock	(342)					(9,825)	(9,825)



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

Cash dividends declared on common stock, \$0.125 per share					(6,068)				(6,068)				
Common stock issued at \$33.81 per share for stock bonus	9			318					318				
Balance, June 30, 2013	48,227	\$	485	\$	187,549	\$	609,538	\$	5,284	\$	(9,825)	\$	793,031

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)*

<b>Cash flows from operating activities</b>			
Net income		\$ 23,297	\$ 23,060
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on sale of assets		3	10
Depreciation and amortization		14,777	13,813
Impairment loss on assets		1,025	461
Deferred income taxes		1,281	(681)
Noncash compensation related to stock plans		6,001	5,300
Excess tax benefit of options exercised		(11)	(99)
Provision for doubtful accounts		9	225
Changes in operating assets and liabilities, net of acquisitions:			
Trade accounts receivable		(45,345)	(40,837)
Inventories		7,168	(47)
Trade accounts payable		(7,021)	10,694
Income taxes payable		11,859	4,462
Accrued profit sharing trust contributions		(1,944)	(2,085)
Accrued cash profit sharing and commissions		8,624	6,873
Other current assets		185	3,537
Accrued liabilities		(1,502)	(4,775)
Long-term liabilities		(477)	(250)
Accrued workers compensation		403	(613)
Other noncurrent assets		578	(2,168)
Net cash provided by operating activities		18,910	16,880
<b>Cash flows from investing activities</b>			
Capital expenditures		(8,095)	(9,629)
Asset acquisitions, net of cash acquired		(5,300)	(56,044)
Proceeds from sale of property and equipment		110	6,958
Loan repayment by related parties		625	
Net cash used in investing activities		(12,660)	(58,715)
<b>Cash flows from financing activities</b>			
Repurchase of common stock		(9,825)	
Debt and line of credit borrowings		1,129	2,146
Repayment of debt and line of credit borrowings		(86)	(954)
Debt issuance costs			(25)
Issuance of common stock		776	1,983
Excess tax benefit of options exercised		11	99
Dividends paid		(6,053)	(12,059)
Net cash used in financing activities		(14,048)	(8,810)
Effect of exchange rate changes on cash and cash equivalents		(2,480)	(453)
Net decrease in cash and cash equivalents		(10,278)	(51,098)
Cash and cash equivalents at beginning of period		175,553	213,817
Cash and cash equivalents at end of period		\$ 165,275	\$ 162,719

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

**Noncash activity during the period**

Noncash capital expenditures	\$	63	\$	258
Dividends declared but not paid		6,068		6,044
Issuance of Company's common stock for compensation		318		418
Non-cash contingent consideration				786

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, 2012 (the 2012 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, collectability 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, software license sales and services and lease income, though significantly less than 1% of net sales and not

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

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 Earnings Per Common Share*

Basic earnings 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income available to common stockholders	\$ 18,502	\$ 15,859	\$ 23,297	\$ 23,060
Basic weighted average shares outstanding	48,529	48,340	48,532	48,307
Dilutive effect of potential common stock equivalents stock options	99	79	95	71
Diluted weighted average shares outstanding	48,628	48,419	48,627	48,378
Earnings per common share:				
Basic	\$ 0.38	\$ 0.33	\$ 0.48	\$ 0.48
Diluted	0.38	0.33	0.48	0.48
Potentially dilutive securities excluded from earnings per diluted share because their effect is anti-dilutive		1,711		1,711

#### *Accounting for Stock-Based Compensation*

With the approval of the Company's stockholders on April 26, 2011, the Company adopted the Simpson Manufacturing Co., Inc. 2011 Incentive Plan (the 2011 Plan). The 2011 Plan amended and restated in their entirety, and incorporated and superseded, both the Simpson Manufacturing Co., Inc. 1994 Stock Option Plan (the 1994 Plan), which was principally for the Company's employees, and the Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan (the 1995 Plan), which was for its independent directors. Options previously granted under the 1994 Plan or the 1995 Plan will not be affected by the adoption of the 2011 Plan and will continue to be governed by the 1994 Plan or the 1995 Plan, respectively.

Under the 1994 Plan, the Company could grant incentive stock options and non-qualified stock options. The Company, however, granted only non-qualified stock options under both the 1994 Plan and the 1995 Plan. The Company generally granted options under each of the 1994 Plan and the 1995 Plan once each year. The exercise price per share of each option granted 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 and Leadership Development 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 was 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. 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 were fully vested on the date of grant. Shares of common stock issued on exercise of stock options under the 1994 Plan and the 1995 Plan are registered under the Securities Act of 1933.

Under the 2011 Plan, the Company may grant incentive stock options, non-qualified stock options, restricted stock and restricted stock units, although the Company currently intends to award primarily restricted stock units and to a lesser extent, if at all, non-qualified stock options. The Company does not currently intend to award incentive stock options or restricted stock. Under the 2011 Plan, no more than 16.3 million shares of the Company's common stock may be issued (including shares already sold) pursuant to all awards under the 2011 Plan, including on exercise of options previously granted under the 1994 Plan and the 1995 Plan. Shares of common stock to be issued pursuant to the 2011 Plan are registered under the Securities Act of 1933.



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

The following table represents the Company's stock option and restricted stock unit activity for the three and six months ended June 30, 2013 and 2012:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock-based compensation expense recognized in operating expenses	\$ 2,807	\$ 2,052	\$ 5,686	\$ 5,120
Tax benefit of stock-based compensation expense in provision for income taxes	896	705	1,944	1,771
Stock-based compensation expense, net of tax	\$ 1,911	\$ 1,347	\$ 3,742	\$ 3,349
Fair value of shares vested	\$ 2,836	\$ 1,895	\$ 5,649	\$ 5,005
Proceeds to the Company from the exercise of stock-based compensation	\$ 280	\$ 225	\$ 776	\$ 1,983
Tax effect from exercise of stock-based compensation, including shortfall tax benefits	\$ (7)	\$ (54)	\$ (1,850)	\$ (56)

  

	At June 30,	
	2013	2012
Stock-based compensation cost capitalized in inventory	\$ 384	\$ 229

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 and restricted stock units were awarded.

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

*Fair Value of Financial Instruments*

The Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC) 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 consisted of only United States Treasury securities and money market funds, which are the Company's primary financial instruments, maintained in cash equivalents and carried at cost, approximating fair value, based on Level 1 inputs. The balance of the Company's primary financial instruments was as follows:

At June 30,

At December 31,



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

(in thousands)	2013	2012	2012
Financial instruments	\$ 60,725	\$ 51,283	\$ 76,130

The carrying amounts of trade receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. The fair value of the Company's line of credit is classified as Level 2 within the fair value hierarchy and is calculated based on borrowings with similar maturities, current remaining average life to maturity and current market conditions.

### Income Taxes

The Company uses an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in each interim period. The effective tax rate decrease from the second quarter of 2012 to the second quarter of 2013 was primarily due to reduced valuation allowances taken on lower second quarter 2013 operating losses in the Europe and Asia/Pacific segments. The effective tax rate decrease from the first half of 2012 to the first half of 2013 was primarily due to \$2.3 million in non-deductible acquisition costs recorded in 2012.

The following table presents the Company's effective tax rates and income tax expense for the three and six months ended June 30, 2013 and 2012:

(in thousands, except percentage amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Effective tax rate	37.7%	41.7%	39.8%	43.5%
Provision for income taxes	\$ 11,177	\$ 11,347	\$ 15,434	\$ 17,719

### Acquisitions

In January 2012, the Company purchased all of the shares of S&P Clever, for \$58.1 million, subject to post-closing adjustments. S&P Clever manufactures and sells engineered materials to repair, strengthen and restore concrete, masonry and asphalt and has operations in Switzerland, Germany, Portugal, Poland, The Netherlands and Austria. Payments under the purchase agreement included cash payments of \$57.5 million and contingent consideration of \$0.6 million payable over a three-year period if sales goals are met. As a result of the acquisition, the Company has increased its presence in the infrastructure, commercial and industrial construction markets in Europe. The Company's measurement of assets acquired and liabilities assumed included cash and cash equivalents of \$6.8 million, other current assets of \$10.8 million, non-current assets of \$53.4 million, current liabilities of \$12.6 million and non-current liabilities of \$0.2 million. Included in non-current assets is goodwill of \$19.3 million, which was assigned to the Europe segment and is not deductible for tax purposes, intangible assets of \$15.7 million, the amortization of which is not deductible for tax purposes and long-lived intangibles of \$4.8 million related to in-progress product development, which will be amortized when the Company markets the product for sale. The weighted-average amortization period for the intangible assets is 9.8 years.

In March 2012, the Company purchased substantially all of the assets of CarbonWrap Solutions, L.L.C. (CarbonWrap) for \$5.5 million, subject to post-closing adjustments. CarbonWrap develops fiber-reinforced polymer products primarily for infrastructure and transportation projects. Payments under the purchase agreement totaled \$5.3 million in cash and contingent consideration of \$0.2 million paid on resolution of specified post-closing contingencies to the principal officer of CarbonWrap, who is now employed by the Company. The Company's measurement of assets acquired included goodwill of \$3.5 million, which was assigned to the North America segment and is deductible for tax purposes, and intangible assets of \$1.7 million, which is subject to tax-deductible amortization. Net tangible assets consisting of accounts receivable, inventory, equipment and prepaid expenses accounted for the balance of the purchase price. The weighted-average amortization period for the intangible assets is 15.6 years.

In February 2013, the Company purchased certain assets relating to the TJ® ShearBrace ( ShearBrace ) product line of Weyerhaeuser NR Company ( Weyerhaeuser ) for \$5.3 million in cash, subject to post-closing adjustments. The ShearBrace is a line of pre-fabricated shearwalls that will complement the Company s Strong-Wall shearwall, and is sold throughout North America. The Company s provisional measurement of assets acquired included goodwill of \$2.6 million that has been assigned to the North America segment, and intangible assets of \$1.9 million, both of which are subject to tax-deductible amortization. Net tangible assets consisting of inventory and equipment accounted for the balance of the purchase price.

Under the business combinations topic of the FASB ASC, the Company accounted for these acquisitions as business combinations and ascribed acquisition-date fair values to the acquired assets and assumed liabilities. Provisional fair value measurements were made in the first quarter of 2013 for acquired assets and assumed liabilities. Adjustments to those measurements may be made in subsequent periods, up to one year from the acquisition date, as information necessary to complete the analysis is obtained. Fair value of intangible assets was based on Level 3 inputs. The Company expects the measurement process for each acquisition to be finalized within a year of its acquisition date.

Pro-forma financial information is not presented as it would not be materially different from the information presented in the Condensed Consolidated Statements of Operations.

*Recently Adopted Accounting Standards*

In February 2013, the FASB issued an amendment to the comprehensive income guidance requiring reporting of the effect of significant reclassifications out of other comprehensive income on the respective lines in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional information about these amounts. This amendment is effective for fiscal years beginning after December 15, 2012, and interim periods within those years. The implementation of this amended accounting guidance did not have a material effect on the Company's consolidated financial position and results of operations.

*Recently Issued Accounting Standards*

Other recent authoritative guidance issued by the FASB (including technical corrections to the ASC), the American Institute of Certified Public Accountants and the Securities and Exchange Commission did not or is not expected to have a material effect on the Company's consolidated financial statements.

2. Trade Accounts Receivable, Net

Trade accounts receivable consisted of the following:

(in thousands)	At June 30,		At December 31,	
	2013		2012	2012
Trade accounts receivable	\$ 130,612	\$	123,531	\$ 85,732
Allowance for doubtful accounts	(1,141)		(1,343)	(1,288)
Allowance for sales discounts and returns	(2,583)		(2,069)	(1,632)
	\$ 126,888	\$	120,119	\$ 82,812

3. Inventories

Inventories consisted of the following:

(in thousands)	At June 30,		At December 31,	
	2013		2012	
Raw materials	\$ 85,490	\$	75,580	\$ 95,959
In-process products	18,759		21,594	16,878
Finished products	91,998		88,043	91,287
	\$ 196,247	\$	185,217	\$ 204,124

## 4. Property, Plant and Equipment, Net

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

(in thousands)	At June 30,		At December 31,	
	2013	2012	2012	
Land	\$ 30,390	\$ 32,100	\$	32,068
Buildings and site improvements	174,771	166,767		174,187
Leasehold improvements	4,996	4,852		4,747
Machinery and equipment	216,154	210,560		214,222
	426,311	414,279		425,224
Less accumulated depreciation and amortization	(226,202)	(210,431)		(217,868)
	200,109	203,848		207,356
Capital projects in progress	9,435	4,837		6,096
	\$ 209,544	\$ 208,685	\$	213,452

The Company's vacant facility in Hungen, Germany, remained classified as an asset held for sale as of June 30, 2013, consistent with the classification at December 31, 2012. In the first quarter of 2013, the Company concluded that the carrying value of its Ireland facility, associated with the Europe segment, exceeded its net estimated realizable value, and therefore recorded an impairment charge, within general and administrative expenses, of \$1.0 million, equal to the amount by which carrying value exceeds net estimated realizable value. See note 10.

Determining the fair value of the Ireland facility is a judgment involving estimates and assumptions. These estimates and assumptions include lease rates, operating costs and inflation factors used to calculate projected future cash flows and future economic and market conditions (Level 3 fair value inputs). The Company bases its fair value estimates on assumptions that it believes to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

## 5. Goodwill and Intangible Assets, Net

Goodwill was as follows:

(in thousands)	At June 30,		At December 31,	
	2013	2012	2012	
North America	\$ 81,080	\$ 77,501	\$	78,739
Europe	39,853	48,529		41,263
Asia/Pacific	1,745	1,953		1,979
Total	\$ 122,678	\$ 127,983	\$	121,981

Intangible assets, net, were as follows:

	At June 30, 2013		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
North America	\$ 39,908	\$ (14,591)	\$ 25,317
Europe	26,546	(8,517)	18,029
Total	\$ 66,454	\$ (23,108)	\$ 43,346

	At June 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
North America	\$ 35,581	\$ (15,350)	\$ 20,231
Europe	27,832	(6,534)	21,298
Total	\$ 63,413	\$ (21,884)	\$ 41,529

	At December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
North America	\$ 37,992	\$ (12,012)	\$ 25,980
Europe	31,701	(7,083)	24,618
Total	\$ 69,693	\$ (19,095)	\$ 50,598

Intangible assets consist primarily of customer relationships, patents, unpatented technology and non-compete agreements. Amortization expense for intangible assets during the three-month periods ended June 30, 2013 and 2012, totaled \$2.0 million and \$1.9 million, respectively, and during the six months ended June 30, 2013 and 2012, totaled \$4.0 million and \$3.7 million, respectively.

At June 30, 2013, estimated future amortization of intangible assets was as follows:

(in thousands)	
Remaining six months of 2013	\$ 4,120
2014	8,064
2015	7,158
2016	6,881
2017	4,965
2018	2,886
Thereafter	9,272
	\$ 43,346

The changes in the carrying amount of goodwill and intangible assets for the six months ended June 30, 2013, were as follows:

(in thousands)	Goodwill	Intangible Assets
Balance at December 31, 2012	\$ 121,981	\$ 50,598
Acquisitions	2,606	1,869
Reclassifications*	(696)	(4,369)
Amortization		(4,013)
Foreign exchange	(1,213)	(739)
Balance at June 30, 2013	\$ 122,678	\$ 43,346

\* Measurement period adjustments related to finalizing accounting for acquisitions, primarily due to \$4.8 million in long-lived intangible assets related to S&P Clever in-progress development projects reclassified from intangible assets to other non-current assets.



6. Debt

The Company has revolving lines of credit with various banks in the United States and Europe. Total available credit at June 30, 2013, was \$307.5 million, including revolving credit lines and an irrevocable standby letter of credit in support of various insurance deductibles.

The Company's primary credit facility is a revolving line of credit with \$300.0 million in available credit. This credit facility will expire in July 2017. Amounts borrowed under this credit facility will bear interest at an annual rate equal to either, at the Company's option, (a) the rate for Eurocurrency deposits for the corresponding deposits of U.S. dollars appearing on Reuters LIBOR01screen page (the LIBOR Rate), adjusted for any reserve requirement in effect, plus a spread of 0.60% to 1.45%, determined quarterly based on the Company's leverage ratio (at June 30, 2013, the LIBOR Rate was 0.19%), or (b) a base rate, plus a spread of 0.00% to 0.45%, determined quarterly based on the Company's leverage ratio. The base rate is defined in a manner such that it will not be less than the LIBOR Rate. The Company will pay fees for standby letters of credit at an annual rate equal to the LIBOR Rate plus the applicable spread described above, and will pay market-based fees for commercial letters of credit. The Company is required to pay an annual facility fee of 0.15% to 0.30% of the available commitments under the credit agreement, regardless of usage, with the applicable fee determined on a quarterly basis based on the Company's leverage ratio. The Company was also required to pay customary fees as specified in a separate fee agreement between the Company and Wells Fargo Bank, National Association, in its capacity as the Agent under the credit agreement.

The Company's borrowing capacity under other revolving credit lines and a term note totaled \$8.7 million at June 30, 2013. The other revolving credit lines and term note charge interest ranging from 1.018% to 11.515%, have maturity dates from August 2013 to September 2020, and had outstanding balances totaling \$1.2 million at June 30, 2013. The Company had outstanding balances of \$4.8 million and \$0.2 million on June 30, 2012 and December 31, 2012, respectively. The Company was in compliance with its financial covenants at June 30, 2013.

## 7. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2012 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.

### *Pending Claims*

Four lawsuits (the 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 (Case 1); *Ke Noho Kai Development, LLC v. Simpson Strong-Tie Company, Inc., and Honolulu Wood Treating Co., LTD.*, Case No. 09-1-1491-06 SSM (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 (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 (Case 4). Case 1 was filed on November 18, 2009. Cases 2 and 3 were originally filed on June 30, 2009. Case 4 was filed on August 19, 2009. The 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. Case 1 is a putative class action brought by the owners of allegedly affected Ocean Pointe houses. 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. 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. 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. Case 4 is a putative class action brought, like Case 1, by owners of allegedly affected Ocean Pointe homes. In Case 4, Haseko Homes, Inc. (Haseko), the developer of the Ocean Pointe development, 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. Similarly, Haseko's sub-contractors on the Ocean Pointe development brought cross-claims against the Company seeking indemnity and contribution for any amounts for which they may ultimately be found liable. None of the Cases alleges a specific amount of damages sought, although each of the Cases seeks compensatory damages, and Case 1 seeks punitive damages. Cases 1 and 4 have been consolidated. In December 2012, the Court granted the Company summary judgment on the claims asserted by the plaintiff homeowners in Cases 1 and 4, and on

the third party complaint and cross-claims asserted by Haseko and the sub-contractors, respectively, in Case 4. In April 2013, the Court granted Haseko and the sub-contractors motion for leave to amend their cross-claims to allege a claim for

negligent misrepresentation. The Company continues to investigate the facts underlying the claims asserted in the 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 under any legal theory and the extent of such liability, if any, are unknown. Management believes the Cases may not be resolved for an extended period. The Company intends to defend itself vigorously in connection with the Cases.

Based on facts currently known to the Company, the Company believes that all or part of the claims alleged in the Cases may be covered by its insurance policies. On April 19, 2011, an action was filed in the United States District Court for the District of Hawaii, *National Union Fire Insurance Company of Pittsburgh, PA v. Simpson Manufacturing Company, Inc., et al.*, Civil No. 11-00254 ACK. In this action, Plaintiff National Union Fire Insurance Company of Pittsburgh, Pennsylvania ( National Union ), which issued certain Commercial General Liability insurance policies to the Company, seeks declaratory relief in the Cases with respect to its obligations to defend or indemnify the Company, Simpson Strong-Tie Company Inc., and a vendor of the Company's strap tie holdown products. By Order dated November 7, 2011, all proceedings in the *National Union* action have been stayed. If the stay is lifted and the National Union action is not dismissed, the Company intends vigorously to defend all claims advanced by National Union.

On April 12, 2011, Fireman's Fund Insurance Company ( Fireman's Fund ), another of the Company's general liability insurers, sued Hartford Fire Insurance Company ( Hartford ), a third insurance company from whom the Company purchased general liability insurance, in the United States District Court for the Northern District of California, *Fireman's Fund Insurance Company v. Hartford Fire Insurance Company*, Civil No. 11 1789 SBA (the *Fireman's Fund* action ). The Company has intervened in the *Fireman's Fund* action and has moved to stay all proceedings in that action as well, pending resolution of the underlying Ocean Pointe Cases.

On November 21, 2011, the Company commenced a lawsuit against National Union, Fireman's Fund, Hartford and others in the Superior Court of the State of California in and for the City and County of San Francisco (the *San Francisco* coverage action ). In the *San Francisco* coverage action, the Company alleges generally that the separate pendency of the *National Union* action and the *Fireman's Fund* action presents a risk of inconsistent adjudications; that the San Francisco Superior Court has jurisdiction over all of the parties and should exercise jurisdiction at the appropriate time to resolve any and all disputes that have arisen or may in the future arise among the Company and its liability insurers; and that the *San Francisco* coverage action should also be stayed pending resolution of the underlying Ocean Pointe Cases. The *San Francisco* coverage action has been ordered stayed pending resolution of the Cases.

*Nishimura v. Gentry Homes, Ltd; Simpson Manufacturing Co., Inc.; and Simpson Strong-Tie Company, Inc.*, Civil no. 11-1-1522-07, was filed in the Circuit Court of the First Circuit of Hawaii on July 20, 2011. The Nishimura case alleges premature corrosion of the Company's strap tie holdown products in a housing development at Ewa Beach in Honolulu, Hawaii. The case is a putative class action brought by owners of allegedly affected homes. The Complaint alleges that the Company's strap products and mudsill anchors are insufficiently corrosion resistant and/or fail to comply with Honolulu's building code. In February 2012, the Court dismissed three of the five claims the plaintiffs had asserted against the Company. The Company is currently investigating the allegations of the complaint, including, among other things: the existence and extent of the alleged corrosion, if any; the building code provisions alleged to be applicable and, if applicable, whether the products complied; 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 any are needed. At this time, the likelihood that the Company will be found liable for any damage allegedly suffered and the extent of such liability, if any, are unknown. The Company denies any liability of any kind and intends to defend itself vigorously in this case.

With respect to these legal proceedings, individually and in the aggregate, the Company has not yet been able to determine whether an unfavorable outcome is probable or reasonably possible and has not been able to reasonably estimate the amount or range of any possible loss. As a result, no amounts have been accrued or disclosed in the accompanying consolidated financial statements with respect to these legal proceedings.



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 is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows or results of operations.

*Other*

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 environmental 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, manufacturing defects, environmental conditions or other factors can contribute to failure of fasteners, connectors, tools, anchors, adhesives and tool products. On occasion, some of the products 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-Based Incentive Plans

The Company currently has one stock-based incentive plan, which incorporates and supersedes its two previous plans (see Note 1 Basis of Presentation *Accounting for Stock-Based Compensation* ). Participants are granted stock-based awards only if the applicable Company-wide or profit-center operating goals, or both, established by the Compensation and Leadership Development Committee of the Board of Directors at the beginning of the year, are met. Certain participants may have additional goals based on strategic initiatives of the Company.

The fair value of each restricted stock unit award is estimated on the date of the award based on the closing market price of the underlying stock on the day preceding the date of the award. On February 6, 2013, 359,371 restricted stock units were awarded, including 9,975 awarded to the Company's directors who are not employees, at an estimated value of \$31.96 per share, based on the closing price on February 5, 2013. The restrictions on these awards generally lapse one quarter on the date of the award and one quarter on each of the first, second and third anniversaries of the date of the award.

The following table summarizes the Company's unvested restricted stock unit activity for the six months ended June 30, 2013:

Unvested Restricted Stock Units (RSUs)	Shares (in thousands)	Weighted- Average Price	Aggregate Intrinsic Value * (in thousands)
--	--------------------------	-------------------------------	---

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

Outstanding at January 1, 2013	264	\$	33.23	
Awarded	359			
Vested	(169)			
Forfeited	(1)			
Outstanding at June 30, 2013	453	\$	32.45	\$ 13,339
Outstanding and expected to vest at June 30, 2013	442	\$	32.45	\$ 12,993

---

\* The intrinsic value is calculated using the closing price per share of \$29.42 as reported by the New York Stock Exchange on June 28, 2013.

Based on the market value on the award date, the total intrinsic value of vested restricted stock units during the six-month periods ended June 30, 2013 and 2012, was \$5.5 million and \$3.1 million, respectively.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility was based on historical volatilities of the Company's common stock measured monthly over a term that is equivalent to the expected life of the stock option. The expected term of each stock option was 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 was 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 was based on the expected dividend yield on the grant date.

No stock options were granted in 2012 or the first half of 2013. The following table summarizes the Company's stock option activity for the six months ended June 30, 2013:

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, 2013	1,907	\$ 31.58		
Exercised	(30)	25.34		
Forfeited	(374)	40.65		
Outstanding at June 30, 2013	1,503	\$ 29.45		\$ 717
Outstanding and expected to vest at June 30, 2013	1,478	\$ 29.44	4.2	\$ 713
Exercisable at June 30, 2013	890	\$ 29.40	3.9	\$ 631

\* 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 stock option, using the closing price per share of \$29.42 as reported by the New York Stock Exchange on June 28, 2013.

The total intrinsic value of stock options exercised during the six-month periods ended June 30, 2013 and 2012, was \$0.2 million and \$0.7 million, respectively.

A summary of the status of unvested stock options as of June 30, 2013, and changes during the six months ended June 30, 2013, are presented below:

Unvested Stock Options	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at January 1, 2013	826	\$ 10.25
Vested	(212)	10.17



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

Forfeited	(1)	10.33
Unvested at June 30, 2013	613 \$	10.27

As of June 30, 2013, \$12.8 million of total unrecognized compensation cost was related to unvested stock-based compensation arrangements under the 2011 Incentive Plan. The portions of this cost related to stock options, and restricted stock units awarded through January 2013, are expected to be recognized over a weighted-average period of 2.0 years.

## 9. Segment Information

The Company is organized into three reportable segments. The segments are defined by the regions where the Company's products are manufactured, marketed and distributed to the Company's customers. The three regional segments are the North America segment, comprising primarily the United States and Canada, the Europe segment, and the Asia/Pacific segment, comprising the Company's operations in China, Hong Kong, the South Pacific and the Middle East. These segments are similar in several ways, including the types of materials, the production processes, the distribution channels and the product applications.

The Company's measure of profit or loss for its reportable segments is income (loss) from operations. The reconciling amounts between consolidated income before tax and consolidated income from operations are net interest income, which is primarily attributed to Administrative and All Other.

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>Net Sales</i>				
North America	\$ 159,757	\$ 144,532	\$ 287,493	\$ 272,500
Europe	32,099	34,120	56,016	62,356
Asia/Pacific	3,502	2,735	6,147	5,107
Administrative and all other	238	316	474	474
Total	\$ 195,596	\$ 181,703	\$ 350,130	\$ 340,437
<i>Sales to Other Segments*</i>				
North America	\$ 1,170	\$ 1,442	\$ 1,931	\$ 2,814
Europe	394	19	674	153
Asia/Pacific	4,875	4,573	9,011	8,297
Total	\$ 6,439	\$ 6,034	\$ 11,616	\$ 11,264
<i>Income (Loss) from Operations</i>				
North America	\$ 29,665	\$ 26,583	\$ 44,924	\$ 44,456
Europe	2,241	2,088	(1,939)	(284)
Asia/Pacific	(46)	(163)	(1,229)	(817)
Administrative and all other	(2,182)	(1,360)	(3,065)	(2,699)
Total	\$ 29,678	\$ 27,148	\$ 38,691	\$ 40,656

\* The sales to other segments are eliminated in consolidation.

(in thousands)	At June 30,		At December 31,	
	2013	2012	2012	2012
<i>Total Assets</i>				
North America	\$ 603,981	\$ 557,502	\$ 583,501	
Europe	188,563	204,864	194,000	

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

Asia/Pacific		32,408		31,734		30,455
Administrative and all other		72,033		84,805		82,366
Total	\$	896,985	\$	878,905	\$	890,322

Cash collected by the Company's United States 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 \$86.8 million, \$82.6 million, and \$91.9 million, as of June 30, 2013 and 2012, and December 31, 2012, respectively.

The following table illustrates how the Company's net sales are distributed by product group for the following periods:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Wood Construction	\$ 165,869	\$ 154,810	\$ 298,666	\$ 292,589
Concrete Construction	29,421	26,488	50,856	47,230
Other	306	405	608	618
Total	\$ 195,596	\$ 181,703	\$ 350,130	\$ 340,437

Wood construction products include connectors, truss plates, fastening systems, fasteners and pre-fabricated shearwalls and are used for connecting and strengthening wood-based construction primarily in the residential construction market. Concrete construction products include adhesives, chemicals, mechanical anchors, carbide drill bits, powder actuated tools and fiber reinforcing materials and are used for restoration, protection or strengthening concrete, masonry and steel construction in residential, industrial, commercial and infrastructure construction.

#### 10. Plant Closure

In September 2012, the Company decided to discontinue manufacturing heavy-duty mechanical anchors made in its facility in Ireland, which were sold mainly in Europe, to focus on selling light-duty and medium-duty anchors and fastener products in conjunction with its connector products. In December 2012, the Company ceased producing and selling heavy-duty mechanical anchors and terminated employees in Europe, primarily in Ireland and Germany, who were manufacturing, selling or supporting the product line. In July 2013, the Company concluded all remaining closing activities associated with the terminated product line, including transferring remaining inventories and certain fixed assets to its other operating locations, and began preparing the site for lease or sale. All costs associated with the closure are reported in the Europe segment.

At December 31, 2012, the long-lived assets of the Ireland facility had a net book value of \$2.8 million, including land and building with a net book value of \$2.7 million. Due to an adverse real estate market, the Company has decided to pursue leasing the facility until the market value of the facility recovers sufficiently. In the first quarter of 2013, the Company concluded that the carrying value of its Ireland facility, associated with the Europe segment, exceeded its net estimated realizable value, and therefore recorded an impairment charge, within general and administrative expenses, of \$1.0 million, equal to the amount by which carrying value exceeds net estimated realizable value. Remaining equipment with a net book value of \$0.1 million was sold to outside parties, transferred to other branches within the Company or scrapped. See note 4.

In 2012, the Company recorded employee severance obligations of \$3.0 million, of which \$2.4 million was paid in 2012, and \$0.6 million was accrued at December 31, 2012. In the first half of 2013, severance payments of \$77 thousand were made and severance charges of \$36 thousand were reversed due to the decision to retain an employee. No additional severance obligations were recorded in 2013. The remaining balance of \$0.4 million to be paid in 2013 represents the statutory and discretionary amounts due to employees that were or will be involuntarily terminated. The Company does not expect to record additional severance expense in 2013.

Closure liabilities are recognized when a transaction or event has occurred that leaves little or no discretion to avoid future settlement of the liability. The Company estimates that closure costs will total \$0.7 million, all of which will be allocated to operating expenses. As of December 31, 2012, the Company had recorded \$0.3 million in plant closure expenses, of which \$0.2 million was paid in 2012 and \$0.1 million

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

is to be paid in 2013. In the first half of 2013, the Company had recorded \$35 thousand in plant closure costs and paid \$125 thousand in accrued plant closure costs, with \$18 thousand to be paid during the remainder of 2013. The Company estimates additional closure costs of \$0.4 million will be incurred and paid in 2013.

### 11. Subsequent Events

In July 2013, the Company's Board of Directors declared a cash dividend of \$0.125 per share, estimated to total \$6.0 million, to be paid on October 24, 2013, to stockholders of record on October 3, 2013.

**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 and six months ended June 30, 2013. The following should be read in conjunction with the interim Condensed Consolidated Financial Statements and related Notes appearing elsewhere herein.

**Overview**

The Company designs, manufactures and sells building construction products that are of high quality and performance, easy to use and cost-effective for customers. It operates in three business segments determined by geographic region: North America, Europe and Asia/Pacific. The Company's stated goals are to strengthen its core wood construction products, expand its global footprint to be less dependent on housing starts in the United States and continue to invest in its strategic initiatives, such as an expanded offering of concrete construction products, particularly specialty chemicals, and wood construction products, particularly truss plate and software offerings.

The North America segment sells both wood and concrete construction products. With the Company's ongoing investment in its integrated component systems offering and the acquisition of Keymark's software development team and Weyerhaeuser's line of shearwalls, the Company continues to expand product lines that complement its core wood construction product group.

The Europe segment also sells both wood and concrete construction products and until recently sold primarily wood construction products. In September 2012, the Company decided to discontinue manufacturing and selling heavy-duty mechanical anchors in Europe to focus on other concrete construction products, such as its light-duty and medium-duty anchors, chemical-based products and carbon-fiber-based products. Closing the heavy-duty mechanical anchor business will save the segment an estimated \$0.9 million in operating losses per quarter, excluding closing costs. Based on current conditions, the Company estimates the Europe segment will either break-even or report a small operating profit for the year 2013.

The Asia/Pacific segment sells both wood and concrete construction products in nearly equal amounts. With the expansion of product lines that repair, protect and strengthen concrete, brick, mortar or asphalt construction, the Company hopes to increase concrete construction product sales in the Asia/Pacific segment. Based on current conditions, the Company estimates the Asia/Pacific segment will report an operating loss for the year 2013.

The Admin & All Other column includes expenses such as self-insured workers compensation claims, if any, for certain members of management, stock compensation for certain members of management, interest expense, foreign exchange gains or losses and income tax

expense. It also includes revenues and expenses related to real estate activities, such as rental income and depreciation expense on the Company's facility in Vacaville, California, which the Company has leased to a third party for a term expiring in August 2020.

Housing starts have increased recently, and the Company has begun to benefit from that increase. Unlike lumber or other products that have a more direct correlation to starts, however, the Company's products are used to a greater extent in areas that are subject to natural forces, such as seismic or wind events. The Company's products are used in a sequential process that follows the construction process. Residential and commercial construction begins with the foundation, followed by the wall and the roof systems, and the installation of the Company's products flow into a project or a house according to those schedules. Foundation product sales could be considered a leading indicator for the Company. Year-to-date sales through June 2013 of these products increased in the low double digits compared to the same period in 2012.

The Company's sales also tend to be seasonal, with operating results varying from quarter to quarter. With some exceptions, the Company's sales and income have historically been lower in the first and fourth quarters than in the second and third quarters of the year, as customers purchase construction materials in the late spring and summer months for the construction season. In addition, weather conditions, such as extended cold or wet weather, which affect and sometimes delay installation of some of the Company's products, could negatively affect the Company's results of operations. Political and economic events can also affect the Company's sales and profitability.

Results of Operations for the Three Months Ended June 30, 2013, Compared with the Three Months Ended June 30, 2012

Net sales increased 7.6% to \$195.6 million in the second quarter of 2013 from \$181.7 million in the second quarter of 2012. The Company had net income of \$18.5 million for the second quarter of 2013 compared to net income of \$15.9 million for the second quarter of 2012. Diluted net income per common share was \$0.38 for the second quarter of 2013 compared to diluted net income of \$0.33 per common share for the second quarter of 2012. Income from operations increased 9.3% to \$29.7 million in the second quarter of 2013 from \$27.1 million in the second quarter of 2012. The following table illustrates the differences in the Company's operating results in the three months ended June 30, 2013, from the three months ended June 30, 2012, and the increases or decreases for each category by segment.

(in thousands)	Three Months Ended June 30, 2012	Increase (Decrease) in Operating Segment				Admin & All Other	Three Months Ended June 30, 2013
		North America	Europe	Asia/Pacific			
Net sales	\$ 181,703	\$ 15,225	\$ (2,021)	\$ 768	\$ (79)	\$ 195,596	
Cost of sales	98,557	8,896	(1,876)	226	373	106,176	
Gross profit	83,146	6,329	(145)	542	(452)	89,420	
Research and development and other engineering expense	9,043	280	(96)	257		9,484	
Selling expense	19,881	1,658	(85)	194	4	21,652	
General and administrative expense	27,087	1,300	(127)	(30)	365	28,595	
Loss (gain) on sale of assets	(13)	10	11	3		11	
Income from operations	27,148	3,081	152	118	(821)	29,678	
Interest income, net	58	36	27	(13)	(107)	1	
Income before income taxes	27,206	3,117	179	105	(928)	29,679	
Provision for income taxes	11,347	1,151	(17)	(91)	(1,213)	11,177	
Net income	\$ 15,859	\$ 1,966	\$ 196	\$ 196	\$ 285	\$ 18,502	

*Net sales*

The following table represents net sales by segment for the three-month periods ended June 30, 2012 and 2013:

(in thousands)	North America	Europe	Asia/Pacific	Admin & All Other	Total
Three months ended:					



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

June 30, 2012	\$	144,532	\$	34,120	\$	2,735	\$	316	\$	181,703
June 30, 2013		159,757		32,099		3,503		237		195,596
Increase (decrease)		15,225		(2,021)		768		(79)		13,893
Percentage increase (decrease)		10.5%		(5.9)%		28.1%		(25.0)%		7.6%

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

The following table represents segment net sales as percentages of total net sales for three-month periods ended June 30, 2012 and 2013:

	North America	Europe	Asia/ Pacific	Admin & All Other	Total
Percentage of total 2012 net sales	79.5%	18.8%	1.5%	0.2%	100.0%
Percentage of total 2013 net sales	81.7%	16.4%	1.8%	0.1%	100.0%

The increase in the Company's second quarter 2013 net sales was primarily due to increased sales in North America, which were affected by improved economic conditions, including a greater number of housing starts compared to the second quarter of 2012. Net sales were affected negatively by economic conditions in Europe, reduced home center sales and lower selling prices in regions of the United States, Canada and Europe.

- *Segment net sales:*

- North America net sales increased 10.5% in the second quarter of 2013, compared to the second quarter of 2012. Net sales in the United States increased in all regions over the same period in 2012, despite the loss of some home center business and price reductions of 3% on average. Canada net sales decreased slightly over the same period in 2012 due to lower sales volumes and lower selling prices.

- Europe net sales decreased 5.9% in the second quarter of 2013, compared to the second quarter of 2012, with approximately half of the decrease due to exiting the heavy-duty mechanical anchor business. The region's economic conditions, extended winter conditions and price decreases also contributed to the lower net sales. Effects due to foreign currency translation were not significant.

- *Consolidated net sales channels and product groups:*

- Net sales to contractor distributors, dealer distributors and lumber dealers increased in the second quarter of 2013, compared to the second quarter of 2012, while net sales to home centers decreased, partly as a result of the loss of Lowe's Companies, Inc. (Lowe's) as a customer in the second quarter of 2012. Lowe's accounted for \$5.3 million in net sales in the second quarter of 2012.

- Excluding Lowe's, net sales to home centers increased 6% in the second quarter of 2013 compared to the second quarter of 2012, while net sales to the Company's largest customer increased 10% over the same period.

- Wood construction product sales, including connectors, truss plates, fastening systems, fasteners and shearwalls, represented 85% of total Company sales in the second quarter of each of 2013 and 2012.

- Concrete construction product sales, including adhesives, chemicals, mechanical anchors, powder actuated tools and reinforcing fiber materials, represented 15% of total Company sales in the second quarter of each of 2013 and 2012.

*Gross profit*

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

The following table represents gross profit by segment for the three-month periods ended June 30, 2012 and 2013:

(in thousands)	North America	Europe	Asia/Pacific	Admin & All Other	Total
Three months ended:					
June 30, 2012	\$ 69,707	\$ 12,729	\$ 339	\$ 371	\$ 83,146
June 30, 2013	76,036	12,584	881	(81)	89,420
Increase (decrease)	6,329	(145)	542	(452)	6,274
Percentage increase (decrease)	9.1%	(1.1)%	159%	NM	7.5%

The following table represents gross profit as a percentage of sales by segment for the three-month periods ended June 30, 2012 and 2013:

	North America	Europe	Asia/Pacific	Admin & All Other	Total
2012 gross profit percentage	48.2%	37.3%	12.4%	NM	45.8%
2013 gross profit percentage	47.6%	39.2%	25.2%	NM	45.7%

Gross profit increased to \$89.4 million in the second quarter of 2013 from \$83.1 million in the second quarter of 2012. Gross profit as a percentage of net sales decreased slightly from 45.8% in the second quarter of 2012 to 45.7% in the second quarter of 2013.

- **North America** Gross profit margin decreased from 48.2% in the second quarter of 2012 to 47.6% in the second quarter of 2013 as a result of competitive price pressure, higher factory overhead and higher distribution costs, as a percentage of sales, partly offset by lower material costs as a percentage of sales. Concrete construction product sales, which have a lower gross margin than wood construction product sales, increased to 13% of North America sales in the second quarter of 2013 from 12% over the same period in 2012 and negatively affected the gross profit margin.
- **Europe** Gross profit margin increased to 39.2% in the second quarter of 2013 from 37.3% in the second quarter of 2012, as a result of decreased material, labor and factory overhead costs (due to higher production volumes) and distribution costs, as a percentage of sales. Exiting the heavy-duty mechanical anchor business also contributed to the increased gross profit margin. Concrete construction product sales, which have a lower gross margin than wood construction product sales, decreased from 22% of Europe sales in the second quarter of 2012 to 20% in the second quarter of 2013, and positively affected the gross profit margin.
- **Product mix** The gross profit margin differential between wood construction products and concrete construction products decreased from 13% in the second quarter of 2012 to 9% in the second quarter of 2013, primarily due to reduced concrete construction product costs, including material and factory overhead costs, partly offset by higher distribution costs.
- **Steel prices** Steel prices increased slightly during the second quarter in the United States market. The Company expects steel prices to continue to increase during the third quarter of 2013 if demand increases as expected.

*Research and development and engineering expenses*

Research and development and engineering expenses increased 4.9% to \$9.5 million in the second quarter of 2013 from \$9.0 million in the second quarter of 2012, primarily due to the Company replacing Keymark, an outside software development firm contracted by the Company during 2012, with an in-house software development team at the beginning of 2013.

- **North America** Research and development and engineering expenses increased \$0.3 million, primarily due to \$2.0 million in 2013 in-house software development costs, comprising mostly personnel costs, compared to \$1.7 million in 2012, which was mostly contracted software development fees. The increase in in-house software development costs for the second quarter of 2013 was primarily due to the hiring of additional programmers and contracted services.

*Selling expenses*

Selling expenses increased 8.9% to \$21.7 million in the second quarter of 2013 from \$19.9 million in the second quarter of 2012, primarily due to increases of \$0.7 million in personnel costs, \$0.4 million in cash profit sharing, and \$0.2 million in each of stock-based compensation, professional and legal fees and promotional expenses.

- **North America** Selling expenses increased \$1.7 million, primarily due to increases of \$0.5 million in personnel costs, mostly from additional sales representatives in support of new businesses acquired in 2011 and 2012 and increased pay rates, \$0.3 million in cash profit sharing costs due to increased profits, and \$0.2 million in each of stock-based compensation and professional and legal fees.

*General and administrative expenses*

General and administrative expenses increased 5.6% to \$28.6 million in the second quarter of 2013 from \$27.1 million in the second quarter of 2012, primarily due to increases of \$0.9 million in personnel costs, \$0.8 million in cash profit sharing and \$0.6 million in stock-based compensation, partly offset by decreases of \$0.5 million in professional and legal fees and \$0.2 million in communication and computer expense and a reduction of \$0.2 million in losses from foreign currency translations.

- **North America** General and administrative expenses increased \$1.3 million, primarily due to increases of \$1.0 million in personnel costs due to the addition of administrative and information technology staff and pay rate increases instituted in January 2013 and \$0.7 million in cash profit sharing due to increased profits, partly offset by decreases of \$0.2 million in bad debt expense and \$0.2 million in communication and computer expense.
- **Europe** General and administrative expenses decreased slightly by \$0.1 million, primarily due to reduced losses from foreign currency translations of \$0.2 million and various other increases, mostly offset by increased stock-based compensation of \$0.4 million.
- **Admin & All Other** General and administrative expenses increased \$0.4 million, primarily due to increases in personnel costs, cash profit sharing and stock-based compensation, partly offset by a decrease of \$0.6 million in legal and professional fees.

*Income taxes*

The effective income tax rate decreased from 41.7% in the second quarter of 2012 to 37.7% in the second quarter of 2013, due to reduced operating losses in the second quarter 2013 in the Europe and Asia/Pacific segments, for which a valuation allowance was recorded.

Results of Operations for the Six Months Ended June 30, 2013, Compared with the Six Months Ended June 30, 2012

Net sales increased 2.8% to \$350.1 million in the first half of 2013 from \$340.4 million in the first half of 2012. The Company had net income of \$23.3 million in the first half of 2013 compared to net income of \$23.1 million in the first half of 2012. Diluted net income per common share was \$0.48 in the first half of 2013 and in the first half of 2012. Income from operations decreased 4.8% from \$40.7 million in the first half of 2012 to \$38.7 million in the first half of 2013. The following table illustrates the differences in the Company's operating results in the six months ended June 30, 2013, from the six months ended June 30, 2012, and the increases or decreases for each category by segment.

(in thousands)	Six Months Ended June 30, 2012	Increase (Decrease) in Operating Segment				Six Months Ended June 30, 2013
		North America	Europe	Asia/Pacific	Admin & All Other	
Net sales	\$ 340,437	\$ 14,994	\$ (6,340)	\$ 1,039	\$	\$ 350,130
Cost of sales	187,886	11,399	(4,372)	462	361	195,736
Gross profit	152,551	3,595	(1,968)	577	(361)	154,394
Research and development and other engineering expense	18,240	(186)	(485)	223		17,792
Selling expense	40,314	2,821	(515)	433	(29)	43,024
General and administrative expense	53,331	499	710	339	5	54,884
Loss on sale of assets	10	21	(22)	(6)		3
Income from operations	40,656	440	(1,656)	(412)	(337)	38,691
Interest income, net	123	23	92	(2)	(196)	40
Income before income taxes	40,779	463	(1,564)	(414)	(533)	38,731
Provision for income taxes	17,719	(1,436)	(72)	(83)	(694)	15,434
Net income	\$ 23,060	\$ 1,899	\$ (1,492)	\$ (331)	\$ 161	\$ 23,297

*Net sales*

The following table represents net sales by segment for the six-month periods ended June 30, 2012 and 2013:

(in thousands)	North America	Europe	Asia/Pacific	Admin & All Other	Total
Six months ended:					
June 30, 2012	\$ 272,500	\$ 62,356	\$ 5,107	\$ 474	\$ 340,437
June 30, 2013	287,494	56,016	6,146	474	350,130

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

Increase (decrease)	14,994	(6,340)	1,039		9,693
Percentage increase (decrease)	5.5%	(10.2)%	20.4%	0.0%	2.8%

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

The following table represents segment net sales as percentages of total net sales for the six-month periods ended June 30, 2012 and 2013:

	North America	Europe	Asia/ Pacific	Admin & All Other	Total
Percentage of total 2012 net sales	80.1%	18.3%	1.5%	0.1%	100.0%
Percentage of total 2013 net sales	82.1%	16.0%	1.8%	0.1%	100.0%

The increase in net sales was primarily due to increased sales in North America, which were positively affected by improved economic conditions, including a greater number of housing starts compared to the first half of 2012, despite reduced home center sales and lower selling prices.

- *Segment net sales:*

- North America net sales were up 5.5% in the first half of 2013, compared to the first half of 2012. Sales in the United States increased over the same period in 2012, despite reduced home center sales and lower selling prices of 3% on average. Canada net sales decreased slightly over the same period in 2012 due to lower sales volumes and lower selling prices.

- Europe net sales decreased 10.2% in the first half of 2013, compared to the first half of 2012, primarily due to exiting the heavy-duty mechanical anchor business, the region's economic conditions, lower sales volumes and lower selling prices. Based on current information, the Company does not expect the region's economic conditions to improve during the second half of 2013, which will continue to negatively affect net sales. Effects due to foreign currency translation were not significant.

- *Consolidated net sales channels and product groups:*

- Net sales to contractor distributors, dealer distributors and lumber dealers increased in the first half of 2013, compared to the first half of 2012, while net sales to home centers decreased, partly as a result of the loss of Lowe's as a customer in the second quarter of 2012. Lowe's accounted for \$11.7 million in net sales in the first half of 2012.

- Excluding Lowe's, net sales to home centers decreased 2% in the first half of 2013, compared to the same period in 2012, while net sales to the Company's largest customer increased 1% over the same period.

- Wood construction product sales represented 85% of total Company sales in the first half of 2013, down from 86% in the first half of 2012.

- Concrete construction product sales increased as a percentage of total sales to 15% in the first half of 2013, from 14% in the first half of 2012.

*Gross profit*



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

The following table represents gross profit by segment for the six-month periods ended June 30, 2012 and 2013:

(in thousands)	North America	Europe	Asia/ Pacific	Admin & All Other	Total
Six months ended:					
June 30, 2012	\$ 129,533	\$ 21,854	\$ 749	\$ 415	\$ 152,551
June 30, 2013	133,128	19,886	1,326	54	154,394
Increase (decrease)	3,595	(1,968)	577	(361)	1,843
Percentage increase (decrease)	2.8%	(9.0)%	77.3%	NM	1.2%

The following table represents gross profit as a percentage of sales by segment for the six-month periods ended June 30, 2012 and 2013:

	North America	Europe	Asia/ Pacific	Admin & All Other	Total
2012 gross profit percentage	47.5%	35.0%	14.7%	NM	44.8%
2013 gross profit percentage	46.3%	35.5%	21.6%	NM	44.1%

Gross profit increased to \$154.4 million in the first half of 2013 from \$152.6 million in the first half of 2012. Gross profit as a percentage of net sales decreased from 44.8% in the first half of 2012 to 44.1% in the first half of 2013.

Based on current information, the Company estimates that its 2013 full-year gross profit margin will be 42% to 43%.

- **North America** Gross profit margin decreased from 47.5% in the first half of 2012 to 46.3% in the first half of 2013 as a result of competitive price pressure, higher factory overhead and higher distribution costs as a percentage of sales. Concrete construction product sales, which have a lower gross margin than wood construction product sales, increased to 13% of North America sales in the first half of 2013 from 12% in the first half of 2012, and negatively affected the gross profit margin.
- **Europe** Gross profit margin increased to 35.5% in the first half of 2013 from 35.0% in the first half of 2012, as a result of lower material, labor, distribution, and factory overhead costs as a percentage of sales, partly due to exiting the heavy-duty mechanical anchor business.
- **Product mix** The gross profit margin differential between wood construction products and concrete construction products decreased from 16% in the first half of 2012 to 11% in the first half of 2013, primarily due to reduced concrete construction product costs, including material and labor costs as well as savings from exiting the heavy-duty mechanical anchor business, partly offset by higher factory overhead and distribution costs.

#### *Research and development and engineering expenses*

Research and development and engineering expenses decreased 2.5% from \$18.2 million in the first half of 2012 to \$17.8 million in the first half of 2013, primarily due to the Company replacing Keymark, an outside software development firm contracted by the Company during 2012, with an in-house software development team at the beginning of 2013, partly offset by increased personnel costs of \$3.7 million.

- **North America** Research and development and engineering expenses decreased \$0.2 million, primarily due to decreases in professional fees of \$4.1 million in 2012, which included contracted software development expenses of \$3.0 million paid mostly to Keymark, compared to \$3.4 million in 2013 in-house software development costs, comprising mostly personnel costs and contracted services.
- **North America** The pace of spending on software development accelerated by \$0.5 million in the second quarter of 2013 over the first quarter of 2013. Based on current information, the Company estimates the pace of spending to continue at the higher rate in the second half of 2013.
- **Europe** Research and development and engineering expenses decreased \$0.5 million, primarily due to a decrease of \$0.6 million in professional fees.

#### *Selling expenses*

Selling expenses increased 6.7% to \$43.0 million in the first half of 2013 from \$40.3 million in the first half of 2012, primarily due to increases of \$1.2 million in personnel costs, \$0.6 million in promotional costs, \$0.4 million in stock-based compensation, \$0.2 million in professional fees and \$0.2 million in cash profit sharing.

- North America Selling expenses increased \$2.8 million, primarily due to increases of \$1.2 million in personnel costs (mostly from additional sales representatives in support of new businesses acquired in 2011 and 2012 and increased pay rates), \$0.6 million in promotional costs, \$0.4 million in stock-based compensation and \$0.2 million in professional fees.

*General and administrative expenses*

General and administrative expenses increased 2.9% to \$54.9 million in the first half of 2013 from \$53.3 million in the first half of 2012, primarily due to increases of \$0.8 million in personnel cost, \$0.6 million in impairment expenses and \$0.5 million in facility expenses, as well as a \$0.5 million increase in net losses from foreign currency translations and a \$0.4 million reduction in intangible amortization expense. These changes were partly offset by a \$1.2 million decrease in legal and professional fees.

- North America General and administrative expenses increased \$0.5 million, primarily due to increases of \$1.3 million in personnel costs due to the addition of administrative and information technology staff and pay rate increases instituted in January 2013 and \$0.5 million in intangible amortization expense due to recent acquisitions, partly offset by decreases of \$0.5 million in impairment costs and \$0.4 million in legal and professional fees and various other decreases in expenses.
- Europe General and administrative expenses increased \$0.7 million, primarily due to a \$1.0 million impairment associated with the Company's real estate in Ireland and a \$0.5 million reduction in gains from foreign currency translations, partly offset by a \$0.6 million decrease in personnel costs.

### *Income taxes*

The effective income tax rate decreased from 43.5% in the first half of 2012 to 39.8% in the first half of 2013 primarily due to \$2.3 million in non-deductible acquisition costs recorded in 2012. Based on current information and subject to future events and circumstances, the Company estimates that its 2013 effective tax rate will be 40% to 42%.

### Liquidity and Sources of Capital

As of June 30, 2013, working capital was \$414.6 million as compared to \$394.7 million at June 30, 2012, and \$402.5 million at December 31, 2012. The increase in working capital from December 31, 2012, was primarily due to increases of \$44.1 million in net trade accounts receivable and \$1.4 million in deferred income taxes, and decreases of \$7.5 million in trade accounts payable, and \$2.0 million in accrued profit sharing trust contributions. The increase in net trade accounts receivable was primarily due to seasonal increases in net sales during the second quarter of 2013 compared to the fourth quarter of 2012. The decrease in trade accounts payable was primarily due to decreased material purchases in the second quarter of 2013 compared to the fourth quarter of 2012. The decrease in accrued profit sharing trust was due to the 2012 contribution paid in the first quarter of 2013. The increases in working capital from December 31, 2012, was partly offset by decreases of \$15.0 million in other current assets, \$10.3 million in cash and cash equivalents, and \$7.9 million in inventories, and increases of \$8.6 million in accrued cash profit sharing, and \$1.0 million in line of credit and notes payable. The decrease in other current assets was primarily due to the decrease in income taxes receivable, while the decrease in cash and cash equivalents was primarily due to payments of \$9.8 million to repurchase Company common stock in the second quarter of 2013. Raw material inventories decreased 10.9% as compared to December 31, 2012, while in-process and finished goods inventories increased 2.4% over the same period. The increase in accrued cash profit sharing was due to higher operating profits in the second quarter of 2013, compared to the fourth quarter of 2012. The increase in line of credit and notes payable was primarily from borrowing for working capital in Europe. The working capital change and changes in noncurrent assets and liabilities, combined with net income of \$23.3 million and noncash expenses, primarily charges for depreciation, amortization, stock-based compensation and impairment of assets totaling \$21.8 million, resulted in net cash provided by operating activities of \$18.9 million. As of June 30, 2013, the Company had unused credit available of \$307.5 million, including a \$300.0 million credit facility.

The Company's investing activities used cash of \$12.7 million, including \$8.1 million in capital expenditures and \$5.3 million for the recent North America acquisition of the ShearBrace product line from Weyerhaeuser, partly offset by a Keymark-related entity's repayment of loan of \$0.6 million and proceeds from the sale of property and equipment of \$0.1 million. The Company's 2012 investing activities included the acquisitions of S&P Clever and CarbonWrap, which used cash of \$56.0 million. The Company's capital expenditures were primarily to increase manufacturing capacity in North America and to improve information technology support systems. The Company estimates that its full-year capital spending will be \$29.0 million to \$30 million in 2013.

The Company's financing activities used net cash of \$14.0 million, including \$9.8 million for the repurchase of common stock and \$6.1 million in dividend payments, partly offset by \$1.1 million cash provided by borrowings on credit facilities, primarily for working capital in Europe, and \$0.8 million from the issuance of common stock on the exercise of stock options. In July 2013, the Company's Board of Directors declared a cash dividend of \$0.125 per share, estimated to total \$6.0 million, to be paid on October 24, 2013, to stockholders of record on October 3, 2013. The Company's Board of Directors has authorized up to \$50.0 million, of which \$40.2 million remained at June 30, 2013, for the repurchase of common stock in 2013.

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 \$300.0 million unsecured credit agreement will expire in July 2017.

A significant portion of the cash and cash equivalents held by the Company is in foreign currencies. Cash and cash equivalents of \$78.7 million held in foreign countries could be subject to additional taxation if it were repatriated to the United States. The Company has no plans to repatriate cash and cash equivalents held outside the United States, as it is expected to be used to fund future international growth and acquisitions.

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 decreases in accumulated other comprehensive income of \$1.0 million and \$6.8 million for the three and six months ended June 30, 2013, respectively. The translation adjustment in the second quarter of 2013 was primarily due to the effect of a strengthening United States dollar in relation to the Canadian, Australian and New Zealand dollars, partly offset by a weakening of the United States dollar in relation to the Chinese Yuan and most European currencies. The translation adjustment in the first half of 2013 was primarily due to the effect of a strengthening United States dollar in relation to most currencies, partly offset by a weakening of the United States dollar in relation to the Chinese Yuan.

### **Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures.* As of June 30, 2013, 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 at the reasonable assurance level as of that date and that the Company's disclosure controls and procedures at that date were designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosures.

The Company's management, including the CEO and the CFO, does not, however, 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 controls. 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 June 30, 2013, 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 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 (Case 1); *Ke Noho Kai Development, LLC v. Simpson Strong-Tie Company, Inc., and Honolulu Wood Treating Co., LTD.*, Case No. 09-1-1491-06 SSM (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 (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 (Case 4). Case 1 was filed on November 18, 2009. Cases 2 and 3 were originally filed on June 30, 2009. Case 4 was filed on August 19, 2009. The 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. Case 1 is a putative class action brought by the owners of allegedly affected Ocean Pointe houses. 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. 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. 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. Case 4 is a putative class action brought, like Case 1, by owners of allegedly affected Ocean Pointe homes. In Case 4, Haseko Homes, Inc. (Haseko), the developer of the Ocean Pointe development, 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. Similarly, Haseko's sub-contractors on the Ocean Pointe development brought cross-claims against the Company seeking indemnity and contribution for any amounts for which they may ultimately be found liable. None of the Cases alleges a specific amount of damages sought, although each of the Cases seeks compensatory damages, and Case 1 seeks punitive damages. Cases 1 and 4 have been consolidated. In December 2012, the Court granted the Company summary judgment on the claims asserted by the plaintiff homeowners in Cases 1 and 4, and on the third party complaint and cross-claims asserted by Haseko and the sub-contractors, respectively, in Case 4. In April 2013, the Court granted Haseko and the sub-contractors' motion for leave to amend their cross-claims to allege a claim for negligent misrepresentation. The Company continues to investigate the facts underlying the claims asserted in the 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 under any legal theory, and the extent of such liability, if any, are unknown. Management believes the Cases may not be resolved for an extended period. The Company intends to defend itself vigorously in connection with the Cases.

Based on facts currently known to the Company, the Company believes that all or part of the claims alleged in the Cases may be covered by its insurance policies. On April 19, 2011, an action was filed in the United States District Court for the District of Hawaii, *National Union Fire Insurance Company of Pittsburgh, PA v. Simpson Manufacturing Company, Inc., et al.*, Civil No. 11-00254 ACK. In this action, Plaintiff National Union Fire Insurance Company of Pittsburgh, Pennsylvania (National Union), which issued certain Commercial General Liability insurance policies to the Company, seeks declaratory relief in the Cases with respect to its obligations to defend or indemnify the Company, Simpson Strong-Tie Company Inc., and a vendor of the Company's strap tie holdown products. By Order dated November 7, 2011, all proceedings in the *National Union* action have been stayed. If the stay is lifted and the National Union action is not dismissed, the Company intends vigorously to defend all claims advanced by National Union.

On April 12, 2011, Fireman's Fund Insurance Company (Fireman's Fund), another of the Company's general liability insurers, sued Hartford Fire Insurance Company (Hartford), a third insurance company from whom the Company purchased general liability insurance, in the United States District Court for the Northern District of California, *Fireman's Fund Insurance Company v. Hartford Fire Insurance Company*, Civil No. 11



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

1789 SBA (the *Fireman's Fund* action ). The Company has intervened in the *Fireman's Fund* action and has moved to stay all proceedings in that action as well, pending resolution of the underlying Ocean Pointe Cases.

On November 21, 2011, the Company commenced a lawsuit against National Union, Fireman's Fund, Hartford and others in the Superior Court of the State of California in and for the City and County of San Francisco (the *San Francisco* coverage action ). In the *San Francisco* coverage action, the Company alleges generally that the separate pendency of the *National Union* action and the *Fireman's Fund* action presents a risk of inconsistent adjudications; that the San Francisco Superior Court has jurisdiction over all of the parties and should exercise jurisdiction at the

appropriate time to resolve any and all disputes that have arisen or may in the future arise among the Company and its liability insurers; and that the *San Francisco* coverage action should also be stayed pending resolution of the underlying Ocean Pointe Cases. The *San Francisco* coverage action has been ordered stayed pending resolution of the Cases.

*Nishimura v. Gentry Homes, Ltd; Simpson Manufacturing Co., Inc.; and Simpson Strong-Tie Company, Inc.*, Civil no. 11-1-1522-07, was filed in the Circuit Court of the First Circuit of Hawaii on July 20, 2011. The *Nishimura* case alleges premature corrosion of the Company's strap tie holdown products in a housing development at Ewa Beach in Honolulu, Hawaii. The case is a putative class action brought by owners of allegedly affected homes. The Complaint alleges that the Company's strap products and mudsill anchors are insufficiently corrosion resistant and/or fail to comply with Honolulu's building code. In February 2012, the Court dismissed three of the five claims the plaintiffs had asserted against the Company. The Company is currently investigating the allegations of the complaint, including, among other things: the existence and extent of the alleged corrosion, if any; the building code provisions alleged to be applicable and, if applicable, whether the products complied; 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 any are needed. At this time, the likelihood that the Company will be found liable for any damage allegedly suffered and the extent of such liability, if any, are unknown. The Company denies any liability of any kind and intends to defend itself vigorously in this case.

#### Item 1A. Risk Factors

We are affected by risks specific to us, as well as risks that generally affect 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-2012.pdf](http://www.simpsonmfg.com/docs/10K-2012.pdf) or [www.sec.gov](http://www.sec.gov)).

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

In February 2013, 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 January 2012. The authorization will remain in effect through the end of 2013. The following table presents the monthly repurchases by the Company during the three months ended June 30, 2013:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
May 2013	5,200	\$ 29.01	5,200	\$ 49.8 million
June 2013	337,100	\$ 28.70	337,100	\$ 40.2 million
Total	342,300			

#### 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 December 13, 2010, are incorporated by reference to Exhibit 3.2 of its Current Report on Form 8-K dated December 16, 2010.

## 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.
- 4.3 Simpson Manufacturing Co., Inc. 401(k) Profit Sharing Plan for Salaried Employees is incorporated by reference to Exhibit 4.3 of Simpson Manufacturing Co., Inc.'s Registration Statement on Form S-8, File Number 333-173811, dated April 29, 2011.
- 4.4 Simpson Manufacturing Co., Inc. 401(k) Profit Sharing Plan for Hourly Employees is incorporated by reference to Exhibit 4.4 of Simpson Manufacturing Co., Inc.'s Registration Statement on Form S-8, File Number 333-173811, dated April 29, 2011.
- 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 July 27, 2012, among Simpson Manufacturing Co., Inc. as Borrower, the Lenders party thereto, Wells Fargo Bank, National Association, in its separate capacities as Swing Line Lender and L/C issuer and as Administrative Agent, and 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 August 1, 2012.
- 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., 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 is incorporated by reference to Exhibit 10 of Simpson Manufacturing Co., Inc.'s Current Report on Form 8-K dated December 10, 2012, as amended on Form 8-K/A dated January 31, 2013.
- 10.7 Compensation of Named Executive Officers is incorporated by reference to Simpson Manufacturing Co., Inc.'s Schedule 14A Proxy Statement dated March 8, 2013.
- 10.8 Simpson Manufacturing Co., Inc. 2011 Incentive Plan is incorporated by reference to Exhibit A of Simpson Manufacturing Co., Inc.'s Schedule 14A Proxy Statement dated March 9, 2012.
- 10.9 Share Purchase Agreement dated as of October 26, 2011, between Josef Scherer and Yvonne Scherer, owners of S&P Clever Reinforcement Company AG and S&P Reinforcement International AG, both companies incorporated under the laws of Switzerland, on the one hand, and Simpson Manufacturing Co., Inc., on the other hand, is incorporated by reference to Exhibit 10.9 of Simpson Manufacturing Co., Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.

- 10.10 Asset Purchase Agreement dated as of December 16, 2011, by and between Automatic Stamping, LLC, a North Carolina limited liability company, Automatic Stamping Auxiliary Services, LLC, a North Carolina limited liability company, and William H. Black, Jr., on the one hand, and Simpson Strong-Tie Company Inc., a California corporation, on the other hand, is incorporated by reference to Exhibit 10.10 of Simpson Manufacturing Co., Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011.
- 10.11 Separation agreement dated as of July 3, 2013, between Michael J. Herbert, Vice President of Simpson Manufacturing Co., Inc., on the one hand, and Simpson Manufacturing Co., Inc., on the other hand, is filed herewith.
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.
- 101 Financial statements from the quarterly report on Form 10-Q of Simpson Manufacturing Co., Inc. for the quarter ended June 30, 2013, formatted in XBRL, are filed herewith and include: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.

**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:** August 7, 2013

By

/s/Brian J. Magstadt  
Brian J. Magstadt  
Chief Financial Officer  
(principal accounting and financial officer)