

SIMPSON MANUFACTURING CO INC /CA/  
Form 10-Q  
November 05, 2010

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: September 30, 2010**

**OR**

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

**For the transition period from                      to**

**Commission file number: 1-13429**

**Simpson Manufacturing Co., Inc.**

(Exact name of registrant as specified in its charter)

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**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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares of the registrant's common stock outstanding as of September 30, 2010: 49,428,070

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

*(In thousands, unaudited)*

	2010	September 30, 2009	December 31, 2009
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 291,846	\$ 220,139	\$ 250,381
Trade accounts receivable, net	93,635	108,005	77,317
Inventories	150,713	178,237	163,754
Deferred income taxes	10,748	13,888	13,970
Assets held for sale	7,887	7,887	7,887
Other current assets	16,012	10,899	16,766
Total current assets	570,841	539,055	530,075
Property, plant and equipment, net	176,464	191,326	187,814
Goodwill	75,585	81,289	81,626
Intangible assets, net	23,068	31,885	28,852
Equity method investment	319		748
Other noncurrent assets	15,557	13,614	14,690
Total assets	\$ 861,834	\$ 857,169	\$ 843,805
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Line of credit	\$	\$ 29	\$
Trade accounts payable	23,663	29,638	28,462
Accrued liabilities	33,517	31,654	29,209
Income taxes payable		1,189	
Accrued profit sharing trust contributions	4,277	5,436	7,018
Accrued cash profit sharing and commissions	8,536	5,620	2,427
Accrued workers' compensation	4,009	4,276	4,352
Total current liabilities	74,002	77,842	71,468
Long-term liabilities	8,705	9,019	8,553
Total liabilities	82,707	86,861	80,021
Commitments and contingencies (Note 8)			
Stockholders' equity			
Common stock, at par value	494	493	493
Additional paid-in capital	148,191	144,199	146,036
Retained earnings	616,719	606,251	598,493
Accumulated other comprehensive income	13,723	19,365	18,762

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Total stockholders' equity		779,127		770,308		763,784
Total liabilities and stockholders' equity	\$	861,834	\$	857,169	\$	843,805

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

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 146,447	\$ 150,085	\$ 435,881	\$ 411,426
Cost of sales	80,750	92,724	239,370	264,059
Gross profit	65,697	57,361	196,511	147,367
Operating expenses:				
Research and development and other engineering	5,715	4,632	16,156	14,004
Selling	15,946	14,200	47,429	44,302
General and administrative	20,001	18,188	57,457	56,315
Loss (gain) on sale of assets	(5,217)	164	(4,813)	233
	36,445	37,184	116,229	114,854
Income from operations	29,252	20,177	80,282	32,513
Loss in equity method investment, before tax	(153)		(429)	(214)
Interest income, net	110	39	148	108
Income from continuing operations before taxes	29,209	20,216	80,001	32,407
Provision for income taxes from continuing operations	10,801	8,012	30,704	15,512
Income from continuing operations, net of tax	18,408	12,204	49,297	16,895
Discontinued operations:				
Income (loss) from discontinued operations	(1,196)	800	(23,419)	(2,970)
Benefit from (provision for) income taxes from discontinued operations	(30)	(246)	7,207	1,107
Income (loss) from discontinued operations, net of tax	(1,226)	554	(16,212)	(1,863)
Net income	\$ 17,182	\$ 12,758	\$ 33,085	\$ 15,032
Earnings (loss) per common share:				
Basic				
Continuing operations	\$ 0.37	\$ 0.25	\$ 1.00	\$ 0.34
Discontinued operations	(0.02)	0.01	(0.33)	(0.04)
Net income	0.35	0.26	0.67	0.31
Diluted				
Continuing operations	\$ 0.37	\$ 0.25	\$ 0.99	\$ 0.34
Discontinued operations	(0.02)	0.01	(0.33)	(0.04)
Net income	0.35	0.26	0.67	0.31
Number of shares outstanding				
Basic	49,427	49,195	49,411	49,066
Diluted	49,527	49,355	49,548	49,185
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30

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



## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Stockholders Equity

for the nine months ended September 30, 2009 and 2010 and three months ended December 31, 2009

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

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Par Value	Paid-in	Earnings	Other	
			Capital		Comprehensive	
					Income (Loss)	
Balance, January 1, 2009	48,971	\$ 490	\$ 136,867	\$ 605,950	\$ 5,719	\$ 749,026
Comprehensive income:						
Net income				15,032		15,032
Other comprehensive income:						
Translation adjustment, net of tax of (\$33)					13,646	13,646
Comprehensive income						28,678
Stock options exercised	321	3	6,351			6,354
Stock compensation			1,176			1,176
Tax benefit of options exercised			(495)			(495)
Cash dividends declared on common stock, \$0.30 per share				(14,731)		(14,731)
Common stock issued at \$27.76 per share for stock bonus	10		300			300
Balance, September 30, 2009	49,302	493	144,199	606,251	19,365	770,308
Comprehensive income:						
Net loss				(2,815)		(2,815)
Other comprehensive loss:						
Translation adjustment, net of tax of (\$4)					(603)	(603)
Comprehensive loss						(3,418)
Stock options exercised	75		1,273			1,273
Stock compensation			514			514
Tax benefit of options exercised			50			50
Cash dividends declared on common stock, \$0.10 per share				(4,943)		(4,943)
Balance, December 31, 2009	49,377	493	146,036	598,493	18,762	763,784
Comprehensive income:						
Net income				33,085		33,085
Other comprehensive income:						
Translation adjustment, net of tax of \$(14)					(5,039)	(5,039)
Comprehensive income						28,046
Stock options exercised	39	1	977			978
Stock compensation			995			995
Tax benefit of options exercised			(118)			(118)
Cash dividends declared on common stock, \$0.30 per share				(14,859)		(14,859)
Common stock issued at \$26.42 per share for stock bonus	12		301			301
Balance, September 30, 2010	49,428	\$ 494	\$ 148,191	\$ 616,719	\$ 13,723	\$ 779,127

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





## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

*(In thousands, unaudited)*

	Nine Months Ended September 30,	
	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 33,085	\$ 15,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on sale of assets	(4,813)	236
Loss on sale of discontinued operations	657	
Depreciation and amortization	17,746	22,093
Impairment loss on discontinued operations	16,916	
Deferred income taxes	4,811	(1,597)
Noncash compensation related to stock plans	1,278	1,554
Loss in equity method investment	429	214
Excess tax benefit of options exercised	(10)	(283)
Provision for (recovery of) doubtful accounts	(5)	456
Provision for excess and obsolete inventory	5,872	788
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(28,433)	(27,552)
Inventories	(12,248)	77,883
Trade accounts payable	(3,680)	6,182
Income taxes payable	995	2,929
Accrued profit sharing trust contributions	(2,741)	(4,178)
Accrued cash profit sharing and commissions	6,147	3,279
Other current assets	(204)	(4,628)
Accrued liabilities	4,702	(4,345)
Long-term liabilities	(80)	2,529
Accrued workers compensation	(343)	(11)
Other noncurrent assets	(226)	(1,844)
Net cash provided by operating activities	39,855	88,737
<b>Cash flows from investing activities</b>		
Capital expenditures	(25,131)	(12,452)
Proceeds from sale of capital assets	14,837	930
Proceeds from sale of discontinued operations	27,706	
Asset acquisitions, net of cash acquired		(23,670)
Loans made to related parties	(1,798)	
Loans repaid by related parties	50	
Net cash provided by (used in) investing activities	15,664	(35,192)
<b>Cash flows from financing activities</b>		
Line of credit borrowings		1,527
Repayment of line of credit borrowings		(1,527)
Issuance of common stock	978	6,354
Excess tax benefit of options exercised	10	283
Dividends paid	(14,821)	(14,702)
Net cash used in financing activities	(13,833)	(8,065)
Effect of exchange rate changes on cash	(221)	3,909
Net increase in cash and cash equivalents	41,465	49,389
Cash and cash equivalents at beginning of period	250,381	170,750
Cash and cash equivalents at end of period	\$ 291,846	\$ 220,139

**Noncash activity during the period**

Noncash capital expenditures	\$	165	\$	
Dividends declared but not paid	\$	4,942	\$	4,919
Issuance of Company's common stock for compensation	\$	301	\$	300

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

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

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

1. Basis of Presentation

*Principles of Consolidation*

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

*Interim Period Reporting*

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

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

*Revenue Recognition*

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

delivered. If actual costs of sales returns, incentives and discounts were to significantly exceed the recorded estimated allowance, the Company's sales would be adversely affected.

*Segment and Discontinued Operations Information*

The Company had operated under two reportable segments, the connector products segment and the venting products segment. As set forth in Note 11 Discontinued Operations, on August 31, 2010, the Company sold substantially all of the assets and liabilities of its venting segment. Accordingly, the Company has classified the results of the venting products segment, including impairments and losses of goodwill and other assets, as discontinued operations in the Condensed Consolidated Statements of Operations for all periods presented. Except as otherwise stated below and except with respect to items reflected on the Company's Condensed Consolidated Balance Sheets set forth above, discussion in these notes pertains to the Company's continuing operations. The Company is currently evaluating its organizational structure and the future presentation of segment information.

*Net Earnings(Loss) Per Common Share*

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

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

(in thousands, except per-share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Earnings from continuing operations, net of tax	\$ 18,408	\$ 12,204	\$ 49,297	\$ 16,895
Earnings (loss) from discontinued operations, net of tax	(1,226)	554	(16,212)	(1,863)
Net income available to common stockholders	\$ 17,182	\$ 12,758	\$ 33,085	\$ 15,032
Basic weighted average shares outstanding	49,427	49,195	49,411	49,066
Dilutive effect of potential common stock equivalents stock options	100	160	137	119
Diluted weighted average shares outstanding	49,527	49,355	49,548	49,185
Net earnings (loss) per share basic:				
Continuing operations	\$ 0.37	\$ 0.25	\$ 1.00	\$ 0.34
Discontinued operations	(0.02)	0.01	(0.33)	(0.04)
Net income	0.35	0.26	0.67	0.31
Net earnings (loss) per share diluted:				
Continuing operations	\$ 0.37	\$ 0.25	\$ 0.99	\$ 0.34
Discontinued operations	(0.02)	0.01	(0.33)	(0.04)
Net income	0.35	0.26	0.67	0.31
Potentially dilutive securities excluded from earnings per diluted share because their effect is anti-dilutive	1,062	931	925	1,029

Anti-dilutive shares attributable to outstanding stock options were excluded from the calculation of diluted net income per share.

*Accounting for Stock-Based Compensation*

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

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

The following table represents the Company's stock option activity, including both continuing and discontinued operations, for the three and nine months ended September 30, 2010 and 2009:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Stock option expense recognized in operating expenses	\$ 432	\$ 386	\$ 1,017	\$ 1,231
Tax benefit of stock option expense in provision for income taxes	148	131	318	413
Stock option expense, net of tax	\$ 284	\$ 255	\$ 699	\$ 818
Fair value of shares vested	\$ 434	\$ 385	\$ 995	\$ 1,176
Proceeds to the Company from the exercise of stock options	\$ 23	\$ 5,228	\$ 978	\$ 6,354
Tax benefit from exercise of stock options, including shortfall tax benefits	\$ (35)	\$ (251)	\$ (118)	\$ (495)
			<b>At September 30,</b>	
			<b>2010</b>	<b>2009</b>
Stock option cost capitalized in inventory			\$ 23	\$ 46

The amounts included in cost of sales, research and development and other engineering, selling, or general and administrative expense depend on the job functions performed by the employees to whom the stock options were granted. The amounts attributed to discontinued operations were not significant for any of the periods presented.

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

*Fair Value of Financial Instruments*

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As of September 30, 2010, the Company's investments consisted of only United States Treasury securities and money market funds aggregating \$174.2 million, which are maintained in cash equivalents and are carried at cost, approximating fair value, based on Level 1 inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, as defined in the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC).



*Income Taxes*

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

The following table presents the Company's effective tax rates and income tax expense for the three and nine months ended September 30, 2010 and 2009:

(in thousands, except) percentage amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Effective tax rate	37.0%	39.6%	38.4%	47.9%
Income tax expense	\$ 10,801	\$ 8,012	\$ 30,704	\$ 15,512

*Recently Issued Accounting Standards*

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 consist of the following:

(in thousands)	At September 30,		At December 31,	
	2010	2009	2009	2009
Trade accounts receivable	\$ 97,059	\$ 114,942	\$ 83,892	
Allowance for doubtful accounts	(1,637)	(4,759)	(4,667)	
Allowance for sales discounts and returns	(1,787)	(2,178)	(1,908)	
	\$ 93,635	\$ 108,005	\$ 77,317	

## 3. Inventories

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Inventories consist of the following:

(in thousands)	At September 30,		At December 31,	
	2010	2009	2009	2009
Raw materials	\$ 61,566	\$ 61,387	\$ 61,408	
In-process products	18,860	22,546	21,113	
Finished products	70,287	94,304	81,233	
	\$ 150,713	\$ 178,237	\$ 163,754	

## 4. Property, Plant and Equipment, Net

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

(in thousands)	At September 30,		At December 31,	
	2010	2009	2009	
Land	\$ 26,589	\$ 23,709	\$ 23,729	
Buildings and site improvements	144,861	141,233	148,381	
Leasehold improvements	3,551	3,859	3,893	
Machinery and equipment	184,694	227,204	226,436	
	359,695	396,005	402,439	
Less accumulated depreciation and amortization	(186,996)	(211,944)	(216,157)	
	172,699	184,061	186,282	
Capital projects in progress	3,765	7,265	1,532	
	\$ 176,464	\$ 191,326	\$ 187,814	

The Company's vacant facility in San Leandro, California, remained classified as an asset held for sale as of September 30, 2010, consistent with the classification at December 31, 2009. In March 2010, the Company acquired a facility in San Bernadino, California, for \$19.2 million in cash. The Company plans to consolidate its operations from Brea, California, and its former leased warehouse in Ontario, California, into this facility in early 2011. The Company sold all of the real estate associated with its Brea properties in July 2010 for \$14.7 million in cash and recorded a gain on the sale of \$5.2 million.

## 5. Investments

*Equity Method Investment*

At September 30, 2010, the Company had a 40.6% equity interest in Keymark Enterprises, LLC ( Keymark ), for which the Company accounts using the equity method. Keymark develops software that assists in designing and engineering residential structures. The Company's relationship with Keymark includes the specification of the Company's products in the Keymark software. The Company has no obligation to make any additional capital contributions to Keymark. Keymark's other owner has defaulted on its loan and pledge agreement, entered into with the Company in October 2008, for the payment of the remaining balance of \$0.7 million that was due in October 2010. The Company is currently negotiating an extension of the payment due date.

## 6. Goodwill and Intangible Assets, Net

Goodwill was as follows:

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(in thousands)	At September 30,		At December 31,
	2010	2009	2009
Connector products	\$ 75,585	\$ 76,854	\$ 77,191
Venting products (discontinued operations)		4,435	4,435
Total	\$ 75,585	\$ 81,289	\$ 81,626

Intangible assets, net, were as follows:

(in thousands)	At September 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Connector products	\$ 37,205	\$ (14,137)	\$ 23,068

	At September 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Connector products	\$ 45,352	\$ (15,715)	\$ 29,637
Venting products (discontinued operations)	3,291	(1,043)	2,248
Total	\$ 48,643	\$ (16,758)	\$ 31,885

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

Intangible assets consist primarily of customer relationships, patents, unpatented technology and non-compete agreements. Amortization expense, for continuing and discontinued operations, for intangible assets during the three months ended September 30, 2010 and 2009, totaled \$1.0 million and \$1.6 million, respectively, and during the nine months ended September 30, 2010 and 2009, totaled \$3.5 million and \$4.9 million, respectively.

At September 30, 2010, estimated future amortization of intangible assets was as follows:

(in thousands)

Final three months of 2010	\$ 1,040
2011	4,117
2012	3,641
2013	3,074
2014	2,858
2015	2,122
Thereafter	6,216
	\$ 23,068

The changes in the carrying amount of goodwill and intangible assets (including goodwill and intangible assets of the discontinued operations) from December 31, 2009, to September 30, 2010, were as follows:

(in thousands)	Goodwill	Intangible Assets
Balance at December 31, 2009	\$ 81,626	\$ 28,852
Amortization		(3,521)
Impairment	(4,435)	(1,643)
Foreign exchange	(1,606)	(620)
Balance at September 30, 2010	\$ 75,585	\$ 23,068

## 7. Debt

The Company has revolving lines of credit with different banks in the United States and Europe. The Company's primary credit facility, a revolving line of credit with \$200.0 million in available credit, charges interest at LIBOR plus 0.27% (at September 30, 2010, LIBOR plus 0.27% was 0.53%), expires in October 2012, and has commitment fees payable at the annual rate of 0.08% on the unused portion of the facility. Other revolving credit lines, with combined available credit of \$4.7 million at September 30, 2010, charge interest ranging from 1.2% to 3.5% and have various maturity dates. The debt outstanding at September 30, 2009, was \$29 thousand. There were no outstanding balances at September 30, 2010, or December 31, 2009.

## 8. Commitments and Contingencies

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

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

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

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





## 9. Stock Option Plans

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

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

Black-Scholes option pricing model assumptions for options granted under the 1994 Plan in 2010 and 2009 are as follows:

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

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

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2010:

Non-Qualified Stock Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value * (in thousands)
Outstanding at January 1, 2010	1,792	\$ 31.31		
Granted	148	24.75		
Exercised	(39)	24.93		
Forfeited	(20)	35.23		
Outstanding at September 30, 2010	1,881	\$ 30.88	1.8	\$ 841
Outstanding and expected to vest at September 30, 2010	1,873	\$ 30.92	1.8	\$ 819
Exercisable at September 30, 2010	1,679	\$ 31.63	1.4	\$ 461

\* The intrinsic value represents the amount, if any, by which the fair market value of the underlying common stock exceeds the exercise price of the option, using the closing price per share of \$25.78 as reported by the New York Stock Exchange on September 30, 2010.

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The total intrinsic value of options exercised during the nine months ended September 30, 2010 and 2009, was \$0.3 million and \$2.3 million, respectively.

A summary of the status of unvested options as of September 30, 2010, and changes during the nine months ended September 30, 2010, are presented below:

Unvested Options	Shares (in thousands)		Weighted- Average Grant-Date Fair Value
Unvested at January 1, 2010	140	\$	8.57
Granted	148		8.46
Vested	(86)		9.89
Unvested at September 30, 2010	202	\$	7.92

As of September 30, 2010, \$12.3 million of total unrecognized compensation cost was related to unvested share-based compensation arrangements under the 1994 Plan. This cost is expected to be recognized over a weighted-average period of 4.2 years. Options granted under the 1995 Plan are fully vested and are expensed on the date of grant.

10. Segment Information

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<i>Net Sales</i>				
Connector products	\$ 146,367	\$ 150,085	\$ 435,801	\$ 411,426
Administrative and all other	80		80	
Total	\$ 146,447	\$ 150,085	\$ 435,881	\$ 411,426
<i>Income (Loss) from Operations</i>				
Connector products	\$ 27,726	\$ 20,783	\$ 77,312	\$ 34,363
Administrative and all other	1,526	(606)	2,970	(1,850)
Total	\$ 29,252	\$ 20,177	\$ 80,282	\$ 32,513

(in thousands)	At September 30,		At December 31,	
	2010	2009	2009	
<i>Total Assets</i>				
Connector products	\$ 703,507	\$ 660,220	\$ 650,796	
Venting products (discontinued operations)		72,742	71,587	
Administrative and all other	158,327		124,207	121,422
Total	\$ 861,834	\$ 857,169	\$ 843,805	

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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 \$230.4 million, \$170.6 million, and \$205.1 million, as of September 30, 2010 and 2009, and December 31, 2009, respectively. Real estate assets previously allocated to the venting products segment have been allocated to the Administrative and all other as of August 31, 2010. See Note 11.

## 11. Discontinued Operations

On August 31, 2010, the Company sold substantially all of the assets and liabilities of Simpson Dura-Vent Company, Inc. ( Simpson Dura-Vent ) pursuant to an agreement dated June 30, 2010, with M&G Holding B.V. ( M&G ) and M&G Dura-Vent, Inc. The Company decided to sell the assets of Simpson Dura-Vent in order to focus exclusively on the development of its profitable connector products business. Simpson Dura-Vent represented the Company's entire venting operating segment. The sale price, which is subject to post-closing adjustments, was \$28.3 million, of which \$27.7 million was received on closing. The Company recorded a loss on sale of \$0.7 million.

The results from discontinued operations, including the impairment charges described below, for the three and nine months ended September 30, 2010 and 2009, were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$ 10,300	\$ 17,115	\$ 33,372	\$ 41,020
Cost of sales	8,957	13,574	28,073	35,534
Gross profit	1,343	3,541	5,299	5,486
Operating expenses	1,857	2,702	6,683	8,411
Impairment charge			21,350	
Loss on sale	657		657	
Other expenses	25	39	28	45
Income (loss) from discontinued operations	(1,196)	800	(23,419)	(2,970)
Benefit from (provision for) income taxes from discontinued operations	(30)	(246)	7,207	1,107
Income (loss) from discontinued operations, net of tax	\$ (1,226)	\$ 554	\$ (16,212)	\$ (1,863)

The Company sold the following Simpson Dura-Vent net assets and liabilities, valued at their book value:

(in thousands)	
Accounts receivable	\$ 11,925
Inventory	18,164
Other current assets	30
Accounts payable	(436)
Other accrued liabilities	(680)
Total net assets sold	\$ 29,003

The Company recorded a loss of \$0.7 million on the sale of the Simpson Dura-Vent net assets and liabilities which is calculated as follows:

(in thousands)	
Proceeds received	\$ 27,746
Cash paid to purchaser	(40)
Remaining payment to be received	640

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Total estimated proceeds		28,346
Carrying value of net assets sold		(29,003)
Loss on sale	\$	(657)

In the second quarter of 2010, as a result of the entry into the agreement to sell assets of Simpson Dura-Vent, the Company recorded a pre-tax impairment charge of \$21.4 million, which included professional fees of \$0.7 million, in discontinued operations. The assets impaired consisted of goodwill in the amount of \$4.4 million, intangible assets of \$1.6 million, fixed assets of \$10.7 million, other current assets of \$3.8 million and other non-current assets of \$0.2 million. The Company retained its real estate in Vacaville, California, all Simpson Dura-Vent balances related to cash, employee related liabilities and other long-term liabilities. On completion of the sale of the assets, the Company leased its facilities in Vacaville, California, to M&G for approximately \$0.9 million per year for ten years.

12. Subsequent Events

In October 2010, the Company's Board of Directors declared a cash dividend of \$0.10 per share, estimated to total \$5.0 million, to be paid on January 27, 2011, to stockholders of record on January 6, 2011.

**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 continuing operations for the Company for the three and nine months ended September 30, 2010 and 2009. The following should be read in conjunction with the interim Condensed Consolidated Financial Statements and related Notes appearing elsewhere herein.

The Company operated under two reportable segments, the connector products segment and the venting products segment. On June 30, 2010, the Company entered into a definitive agreement to sell substantially all of the assets of its venting products segment ( Simpson Dura-Vent ) and, therefore, it is no longer included in continuing operations. The sale was completed on August 31, 2010. The Company decided to sell substantially all of the assets and liabilities of Simpson Dura-Vent in order to focus exclusively on the development of its profitable connector business. Except as otherwise stated, this discussion and analysis pertains to the Company's continuing operations. The connector segment represents substantially all of the Company's continuing operations.

Results of Continuing Operations for the Three Months Ended September 30, 2010, Compared with the Three Months Ended September 30, 2009

Net sales from continuing operations decreased 2.4% to \$146.4 million in the third quarter of 2010 from \$150.1 million in the third quarter of 2009. The decrease in net sales from continuing operations resulted primarily from a decrease in sales volume, although average prices increased 2.5% as compared to the third quarter of 2009. The Company had income from continuing operations, net of tax, of \$18.4 million for the third quarter of 2010 compared to income from continuing operations, net of tax, of \$12.2 million for the third quarter of 2009. Diluted earnings from continuing operations, net of tax, per common share was \$0.37 for the third quarter of 2010 compared to diluted earnings from continuing operations, net of tax, of \$0.25 per common share for the third quarter of 2009.

In the third quarter of 2010, sales were mixed throughout North America and increased in Europe. Sales decreased in the United States with above average decreases in the western and southeastern regions and California as compared to the third quarter of 2009, partly offset by growth in the midwestern and northeastern regions. Sales in Canada increased as compared to the third quarter of 2009. Sales in Asia, although relatively small, increased as the Company has recently expanded its presence in the region. Sales to contractor distributors, dealer distributors and home centers decreased, while sales to lumber dealers increased over the same period. Sales decreased across most of the Company's major product lines, although sales of anchor products increased.

Income from operations increased 45.0% from \$20.2 million in the third quarter of 2009 to \$29.3 million in the third quarter of 2010. Gross margins increased from 38.2% in the third quarter of 2009 to 44.9% in the third quarter of 2010. The increase in gross margins was primarily due to lower manufacturing costs, including lower costs of material, labor and overhead. Steel prices have decreased from their levels in early 2010, as demand has not returned to the steel markets and import competition has increased. The Company expects steel prices may begin to



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increase in late 2010 or in 2011. The Company's inventories decreased 8.0% from \$163.8 million at December 31, 2009, to \$150.7 million at September 30, 2010, primarily due to the sale of Simpson Dura-Vent's inventory, partly offset by purchases of raw materials.

Research and development and engineering expense increased 23.4% from \$4.6 million in the third quarter of 2009 to \$5.7 million in the third quarter of 2010, primarily due to increased cash profit sharing of \$0.7 million and personnel costs of \$0.5 million. Selling expense increased 12.3% from \$14.2 million in the third quarter of 2009 to \$15.9 million in the third quarter of 2010, primarily as a result of increases in cash profit sharing and commissions of \$0.9 million, personnel costs of \$0.6 million and professional services of \$0.4 million, partly offset by various other items. General and administrative expense increased 10.0% from \$18.2 million in the third quarter of 2009 to \$20.0 million in the third quarter of 2010. The increase resulted primarily from increases in cash profit sharing of \$1.4 million, professional fees of \$0.6 million and bad debt expense of \$0.6 million, partly offset by decreases in

intangible asset amortization expense of \$0.4 million and various other items. In the third quarter of 2010, the Company recorded gains on sales of assets of \$5.2 million, primarily from its real estate in Brea, California, as compared to losses on sales of assets of \$0.2 million in the third quarter of 2009.

The effective tax rate from continuing operations was 37.0% in the third quarter of 2010, as compared to 39.6% in the third quarter of 2009. The decrease in the effective tax rate as compared to the prior year is primarily due to improved operations in countries where valuation allowances are recorded against tax losses. In general, the Company is required to use an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in an interim period. The income tax expense for the quarters ended September 30, 2010 and 2009, however, has been computed based on those quarters as discrete periods due to the uncertainty regarding the Company's ability to reliably estimate pre-tax income for the remainder of each year. The Company cannot reliably estimate pre-tax income for the remainder of 2010 or for the full year, primarily due to the continued uncertainty in the construction markets in which the Company operates.

For its European operations, the Company recorded income from operations of \$3.5 million in the third quarter of 2010 compared to income from operations of \$0.5 million in the third quarter of 2009.

Results of Continuing Operations for the Nine Months Ended September 30, 2010, Compared with the Nine Months Ended September 30, 2009

In the first nine months of 2010, net sales from continuing operations increased 5.9% to \$435.9 million as compared to net sales from continuing operations of \$411.4 million in the first nine months of 2009. The increase in net sales resulted primarily from an increase in sales volume, although average prices decreased 2.4% as compared to the first nine months of 2009. The Company had income from continuing operations, net of tax, of \$49.3 million for the first nine months of 2010 compared to income from continuing operations, net of tax, of \$16.9 million for the first nine months of 2009. Diluted income from continuing operations, net of tax, per common share was \$0.99 for the first nine months of 2010 compared to diluted income from continuing operations, net of tax, of \$0.34 per common share for the first nine months of 2009.

In the first nine months of 2010, sales increased throughout most of North America and Europe. The growth in the United States was strongest in the midwestern and northeastern regions, while sales in California and the western region declined slightly as compared to the first nine months of 2009. Sales in Canada increased significantly. Sales in Asia, although relatively small, have increased as the Company has recently expanded its presence in the region. Sales to dealer distributors and lumber dealers increased, while sales to contractor distributors and home centers decreased over the same period. Sales increased across most of the Company's major product lines.

Income from operations increased over 140% from \$32.5 million in the first nine months of 2009 to \$80.3 million in the first nine months of 2010. Gross margins increased from 35.8% in the first nine months of 2009 to 45.1% in the first nine months of 2010. The increase in gross margins was primarily due to lower manufacturing costs, including lower costs of material, labor and overhead, and increased absorption of fixed overhead, as a result of higher production volumes.

Research and development and engineering expense increased 15.4% from \$14.0 million in the first nine months of 2009 to \$16.2 million in the first nine months of 2010, primarily due to increases in cash profit sharing of \$1.3 million and personnel costs of \$1.1 million, partly offset by various other items. Selling expense increased 7.1% from \$44.3 million in the first nine months of 2009 to \$47.4 million in the first nine months of 2010, primarily as a result of increases in cash profit sharing and commissions of \$2.8 million and professional services of \$0.5 million, partly offset by various other items. General and administrative expense increased 2.0% from \$56.3 million in the first nine months of 2009 to \$57.5 million in the first nine months of 2010. The increase was primarily the result of increases in cash profit sharing of \$5.1 million and computer

and information technology costs of \$1.2 million, partly offset by decreases in bad debt expense of \$1.3 million, administrative personnel costs of \$1.2 million, intangible asset amortization expense of \$1.1 million and various other items.

The effective tax rate from continuing operations was 38.4% in the first nine months of 2010, as compared to 47.9% in the first nine months of 2009. The decrease in the effective tax rate as compared to the prior year is primarily due to improved operations in countries where valuation allowances are recorded against tax losses. In general, the Company is required to use an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in an interim period. The income tax expense for the first nine months of 2010 and 2009, however, has been computed based on those periods as discrete periods due to the uncertainty regarding the Company's ability to reliably estimate pre-tax income for the remainder of each year. The Company cannot reliably estimate pre-tax income for the remainder of 2010 or for the full year, primarily due to the continued uncertainty in the construction markets in which the Company operates.

For its European operations, the Company recorded income from operations of \$4.2 million in the first nine months of 2010 compared to a loss from operations of \$5.1 million in the first nine months of 2009.

#### Critical Accounting Policies and Estimates

The Company did not make any significant changes to its critical accounting policies and estimates during the three or nine months ended September 30, 2010, from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. 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.

#### Liquidity and Sources of Capital

As of September 30, 2010, working capital was \$496.8 million as compared to \$461.2 million at September 30, 2009, and \$458.6 million at December 31, 2009. The increase in working capital from December 31, 2009, was primarily due to increases in cash and cash equivalents of \$41.5 million, net trade accounts receivable of \$16.3 million, and a decrease in trade accounts payable of \$4.8 million. The increase in cash and cash equivalents was primarily due to the cash proceeds from the sales of the Simpson Dura-Vent assets and the Brea, California, real estate. Net trade accounts receivable increased 21.1% from December 31, 2009, as a result of increased sales in the latter part of the third quarter of 2010 compared to the latter part of the fourth quarter of 2009, partly offset by the sale of Simpson Dura-Vent's trade accounts receivable. These increases in working capital were partly offset by a decrease in inventories of \$13.0 million, and increases in accrued cash profit sharing and commissions of \$6.1 million and other accrued liabilities of \$4.3 million. Raw material inventories were flat as compared to December 31, 2009, and in-progress and finished goods inventories decreased 12.9% over the same period. The sale of Simpson Dura-Vent's inventories was partly offset by increased inventories of Simpson Strong-Tie. The balance of the change in working capital was due to the fluctuation of various other asset and liability accounts, none of which was individually material. The working capital change and changes in noncurrent assets and liabilities, combined with net income of \$33.1 million and noncash expenses, primarily impairments of assets, loss on sale of the venting assets, depreciation, amortization and stock-based compensation charges totaling \$36.6 million, resulted in net cash provided by operating activities of \$39.9 million. As of September 30, 2010, the Company had unused credit facilities available of \$204.7 million.

The Company was provided net cash of \$15.7 million by its investing activities, primarily from the sale of its discontinued venting operations for \$27.7 million in August, 2010, and the sale of real estate and equipment for \$14.8 million, partly offset by the acquisition, in March 2010, of a manufacturing and distribution facility in San Bernadino, California, for \$19.2 million. The Company plans to consolidate its operations from Brea, California, and its former leased warehouse in Ontario, California, into this facility in early 2011. The Company sold all of the real estate associated with its Brea properties in July 2010, for \$14.7 million in cash and recorded a gain on the sale of \$5.2 million. In January 2010, the Company used \$1.8 million to make a new loan and adjust an existing loan to related parties. These loans, to entities related to Keymark, bear interest at an annual rate of 5.5%, payable monthly, and the principal amounts will be due and payable in February 2013, or earlier if Keymark is sold. These loans are backed by real property deeds of trust. The Company estimates that its full-year capital spending will total between \$33 million and \$39 million in 2010.

The Company's vacant facility in San Leandro, California, remained classified as an asset held for sale as of September 30, 2010, consistent with the classification at December 31, 2009.

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The Company's financing activities used net cash of \$13.8 million. The payments of cash dividends in the amount of \$14.8 million were the primary use of cash. Cash was provided from the issuance of the Company's common stock through the exercise of stock options totaling \$1.0 million. In October 2010, the Company's Board of Directors declared a cash dividend of \$0.10 per share, estimated to total \$5.0 million, to be paid on January 27, 2011, to stockholders of record on January 6, 2011.

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

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

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

The Company has foreign exchange rate risk in its international operations, primarily Europe and Canada, and through purchases from foreign vendors. The Company does not currently hedge this risk. If the exchange rate were to change by 10% in any one country or currency where the Company has operations, the change in net income would not be material to the Company's operations as a whole. The translation adjustment resulted in an increase in accumulated other comprehensive income of \$13.0 million for the three months ended September 30, 2010, primarily due to the effect of the weakening of the United States dollar in relation to the Canadian and European currencies, and a decrease in accumulated other comprehensive income of \$5.0 million for the nine months ended September 30, 2010, primarily due to the effect of the strengthening of the United States dollar in relation to most European currencies.

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

*Disclosure Controls and Procedures.* As of September 30, 2010, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was performed under the supervision and with the participation of the Company's management, including the chief executive officer ( CEO ) and the chief financial officer ( CFO ). Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective 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 September 30, 2010, the Company made no changes to its internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

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

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

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

**Item 1A. Risk Factors**

We are affected by risks specific to us, as well as risks that affect all businesses operating in global markets. Some of the significant factors that could materially adversely affect our business, financial condition and operating results appear in Item 1A. Risk Factors of our most recent Annual Report on Form 10-K (available at [www.simpsonmfg.com/docs/10K-2009.pdf](http://www.simpsonmfg.com/docs/10K-2009.pdf) or [www.sec.gov](http://www.sec.gov)), but we have changed the risk factor titled "Contracts that we file as exhibits to our public reports contain recitals, representations and warranties that may not be factually correct," to read as follows:





**Contracts that we file as exhibits to our public reports contain recitals, representations and warranties that may not be factually correct.**

The parties to any agreement or other instrument that we file as an exhibit to this or any other report did not necessarily intend that any recital, representation, warranty or other statement of purported fact in the instrument establishes or confirms any fact, even if it is worded as such. The parties generally intended such statements to allocate contractual risk between the parties, and the statements often are subject to standards of materiality that differ from the standards applicable to our reports. In addition, such statements may have been qualified by other materials that we have not filed with (or incorporated by reference into) this or any other report or document. Such exhibits should be read in the context of our other disclosures in our reports. We believe the text of each of our reports was complete and correct in all material respects when we filed it.

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

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

**Item 6. Exhibits.**

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

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

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

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.

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

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

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

10.4 Credit Agreement dated as of October 10, 2007, among Simpson Manufacturing Co., Inc. as Borrower, the Lenders party thereto, Wells Fargo Bank as Agent, and Simpson Dura-Vent Company, Inc., Simpson Strong Tie Company Inc., and Simpson Strong-Tie International, Inc. as Guarantors, is incorporated by reference to Exhibit 10.4 of Simpson Manufacturing Co., Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

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

10.6 Compensation of Named Executive Officers of Simpson Manufacturing Co., Inc. is incorporated by reference to Simpson Manufacturing Co., Inc.'s Current Report on Form 8-K dated July 20, 2010.

10.7 Asset Purchase Agreement by and among M&G Dura-Vent, Inc. (formerly named Smokey Acquisition, Inc.) and M&G Holding B.V. and Simpson Dura-Vent Company, Inc. and Simpson Manufacturing Co., Inc. dated June 30, 2010, including the exhibits thereto and the related letter agreement dated June 30, 2010, is incorporated by reference to Exhibit 10.7 of Simpson Manufacturing Co., Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

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 September 30, 2010, 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 Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

**SIGNATURES**

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

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

**DATE:** November 5, 2010

By

/s/Karen Colonias

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