

SIMPSON MANUFACTURING CO INC /CA/

Form 10-Q/A

November 17, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

AMENDMENT NO. 1

(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, 2004**

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: **0-23804**

**Simpson Manufacturing Co., Inc.**

(Exact name of registrant as specified in its charter)



## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

	2004	June 30, (Unaudited)	2003	December 31, 2003
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 34,437,611		\$ 89,942,479	\$ 95,135,885
Short-term investments	44,609,598		19,965,820	44,737,867
Trade accounts receivable, net	122,318,563		94,699,861	66,073,296
Inventories	130,852,748		97,004,974	106,202,713
Deferred income taxes	8,327,841		7,762,013	7,821,198
Other current assets	4,191,605		3,594,511	4,293,705
Total current assets	344,737,966		312,969,658	324,264,664
Property, plant and equipment, net	115,767,127		104,461,724	107,226,319
Goodwill	23,320,674		21,787,934	23,655,860
Other noncurrent assets	7,369,447		7,142,537	6,545,547
Total assets	\$ 491,195,214		\$ 446,361,853	\$ 461,692,390
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities				
Line of credit and current portion of long-term debt	\$ 813,001		\$ 1,977,686	\$ 1,113,657
Trade accounts payable	33,593,372		19,325,007	22,567,291
Accrued liabilities	21,985,781		14,994,313	15,181,487
Income taxes payable	1,184,413		4,302,466	
Accrued profit sharing trust contributions	3,483,106		3,006,125	6,021,136
Accrued cash profit sharing and commissions	13,209,050		10,782,301	7,459,428
Accrued workers' compensation	2,473,764		1,990,764	2,423,764
Total current liabilities	76,742,487		56,378,662	54,766,763
Long-term debt, net of current portion	2,482,698		5,313,247	5,177,936
Other long-term liabilities	1,164,452		838,418	1,443,440
Total liabilities	80,389,637		62,530,327	61,388,139
Commitments and contingencies (Notes 6 and 7)				
Stockholders' equity				
Common stock, at par value	249,767		247,724	248,896
Additional paid-in capital	68,958,034		59,669,773	63,583,654
Retained earnings	392,852,363		326,060,321	357,916,036
Accumulated other comprehensive income	6,293,911		3,755,706	7,982,663
Treasury stock	(57,548,498)		(5,901,998)	(29,426,998)

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Total stockholders' equity	410,805,577	383,831,526	400,304,251
Total liabilities and stockholders' equity	\$ 491,195,214	\$ 446,361,853	\$ 461,692,390

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

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net sales	\$ 181,835,310	\$ 146,460,792	\$ 341,751,045	\$ 262,916,972
Cost of sales	107,384,638	85,569,521	202,721,737	156,415,122
Gross profit	74,450,672	60,891,271	139,029,308	106,501,850
Operating expenses:				
Selling	15,338,162	12,383,934	28,383,690	23,910,643
General and administrative	23,490,160	19,601,051	45,715,980	35,199,776
	38,828,322	31,984,985	74,099,670	59,110,419
Income from operations	35,622,350	28,906,286	64,929,638	47,391,431
Interest income (expense), net	(164,484)	106,808	108,363	236,757
Income before income taxes	35,457,866	29,013,094	65,038,001	47,628,188
Provision for income taxes	13,643,369	11,331,486	25,274,034	18,921,679
Net income	\$ 21,814,497	\$ 17,681,608	\$ 39,763,967	\$ 28,706,509
Net income per common share				
Basic	\$ 0.91	\$ 0.72	\$ 1.65	\$ 1.17
Diluted	\$ 0.89	\$ 0.71	\$ 1.62	\$ 1.15
Cash dividends declared per common share	\$ 0.10	\$	\$ 0.20	\$
Number of shares outstanding				
Basic	24,012,686	24,604,164	24,142,474	24,592,820
Diluted	24,434,951	24,957,412	24,552,762	24,936,338

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 months ended June 30, 2003 and 2004 and December 31, 2003

(Unaudited)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2003	24,565,254	\$ 246,996	\$ 57,176,636	\$ 297,353,812	\$ 308,300	\$ (5,901,998)	\$ 349,183,746
Comprehensive income:							
Net income				28,706,509			28,706,509
Other comprehensive income:							
Change in net unrealized gains on available-for-sale investments					(5,494)		(5,494)
Translation adjustment					3,452,900		3,452,900
Comprehensive income	32,153,915						
Options exercised	64,033	640	976,609				977,249
Stock compensation expense			770,325				770,325
Tax benefit of options exercised			456,771				456,771
Common stock issued at \$32.90 per share	8,800	88	289,432				289,520
Balance, June 30, 2003	24,638,087	247,724	59,669,773	326,060,321	3,755,706	(5,901,998)	383,831,526
Comprehensive income:							
Net income				31,855,715			31,855,715
Other comprehensive income:							
Change in net unrealized gains on available-for-sale investments					(24,638)		(24,638)
Translation adjustment					4,251,595		4,251,595
Comprehensive income	36,082,672						
Options exercised	117,207	1,172	1,785,420				1,786,592
Stock compensation expense			766,489				766,489
Tax benefit of options exercised			1,361,972				1,361,972
Repurchase of common stock	(500,000)					(23,525,000)	(23,525,000)
Balance, December 31, 2003	24,255,294	248,896	63,583,654	357,916,036	7,982,663	(29,426,998)	400,304,251
Comprehensive income:							
Net income				39,763,967			39,763,967
Other comprehensive income:							
Change in net unrealized gains on					(70,885)		(70,885)

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available-for-sale investments									
Translation adjustment						(1,617,867)			(1,617,867)
Comprehensive income	38,075,215								
Options exercised	78,484		785		1,514,419				1,515,204
Stock compensation expense					2,378,908				2,378,908
Tax benefit of options exercised					1,043,743				1,043,743
Repurchase of common stock	(518,427)						(28,121,500)		(28,121,500)
Cash dividends declared						(4,827,640)			(4,827,640)
Common stock issued at \$50.86 per share	8,600		86		437,310				437,396
Balance, June 30, 2004	23,823,951	\$	249,767	\$	68,958,034	\$	392,852,363	\$	6,293,911
								\$	(57,548,498)
									\$ 410,805,577

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

(Unaudited)

	Six Months Ended June 30,	
	2004	2003
<b>Cash flows from operating activities</b>		
Net income	\$ 39,763,967	\$ 28,706,509
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of capital equipment	(161,506)	(46,043)
Depreciation and amortization	9,680,271	8,103,361
Realized loss on sale of available-for-sale investments		(2,129)
Deferred income taxes and other long-term liabilities	(751,196)	(1,253,864)
Noncash compensation related to stock plans	2,794,795	1,092,023
Provision for doubtful accounts	(92,075)	900,813
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable, net	(56,359,499)	(38,715,060)
Inventories	(25,100,182)	(1,922,429)
Trade accounts payable	10,677,338	4,121,488
Income taxes payable	3,820,786	6,435,623
Accrued profit sharing trust contributions	(2,521,247)	(2,167,787)
Accrued cash profit sharing and commissions	5,754,381	4,604,020
Other current assets	(2,029,700)	(1,222,222)
Accrued liabilities	4,090,140	1,100,611
Accrued workers compensation	50,000	305,000
Other noncurrent assets	251,033	(558,763)
Total adjustments	(49,896,661)	(19,225,358)
Net cash (used in) provided by operating activities	(10,132,694)	9,481,151
<b>Cash flows from investing activities</b>		
Capital expenditures	(18,687,311)	(12,757,030)
Asset acquisitions, net of cash acquired	(575,020)	(8,863,170)
Proceeds from sale of capital equipment	164,021	65,027
Purchases of available-for-sale investments	(40,237,616)	(12,235,573)
Maturities of available-for-sale investments	4,500,000	2,700,000
Sales of available-for-sale investments	35,795,000	7,250,000
Net cash used in investing activities	(19,040,926)	(23,840,746)
<b>Cash flows from financing activities</b>		
Line of credit borrowings	1,879,710	1,363,129
Repayment of debt and line of credit borrowings	(4,735,894)	(1,325,650)
Repurchase of common stock	(28,121,500)	
Issuance of common stock	1,952,600	1,266,769
Dividends paid	(2,427,640)	
Net cash (used in) provided by financing activities	(31,452,724)	1,304,248
Effect of exchange rate changes on cash	(71,930)	(320,230)
Net decrease in cash and cash equivalents	(60,698,274)	(13,375,577)
Cash and cash equivalents at beginning of period	95,135,885	103,318,056



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Cash and cash equivalents at end of period	\$	34,437,611	\$	89,942,479
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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**

*Interim Period Reporting*

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America have been condensed or omitted. These interim statements should be read in conjunction with the consolidated financial statements and the notes thereto included in Simpson Manufacturing Co., Inc.'s (the Company's) 2003 Annual Report on Form 10-K (the 2003 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 present fairly the financial information set forth therein, in accordance with accounting principles generally accepted in the United States of America. The year-end condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America. The Company's quarterly results may be subject to fluctuations. 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 allowances, 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 and determinable. In instances where title does not pass to the customer upon shipment, the Company recognizes revenue upon delivery or customer acceptance, depending on terms of the sales agreement. Service sales, representing aftermarket repair and maintenance and engineering activities, are recognized as the services are complete.

*Treasury Stock*

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Upon retirement, the resulting gains or losses are credited or charged to retained earnings.

*Net Income Per Common Share*

Basic net income per common share is computed based upon 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:

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	Income	Shares	Per Share	Income	Per Shares	Share
<b>Basic EPS</b>						
Income available to common stockholders	\$ 21,814,497	24,012,686	\$ 0.91	\$ 17,681,608	24,604,164	\$ 0.72
<b>Effect of Dilutive Securities</b>						
Stock options		422,265	(0.02)		353,248	(0.01)
<b>Diluted EPS</b>						
Income available to common stockholders	\$ 21,814,497	24,434,951	\$ 0.89	\$ 17,681,608	24,957,412	\$ 0.71
	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
	Income	Shares	Per Share	Income	Per Shares	Share
<b>Basic EPS</b>						
Income available to common stockholders	\$ 39,763,967	24,142,474	\$ 1.65	\$ 28,706,509	24,592,820	\$ 1.17
<b>Effect of Dilutive Securities</b>						
Stock options		410,288	(0.03)		343,518	(0.02)
<b>Diluted EPS</b>						
Income available to common stockholders	\$ 39,763,967	24,552,762	\$ 1.62	\$ 28,706,509	24,936,338	\$ 1.15

The dilutive securities in the tables above exclude stock options that would be anti-dilutive.

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

The Company maintains two stock option plans under which the Company may grant incentive stock options and non-qualified stock options to employees, consultants and non-employee directors. Stock options have been granted with exercise prices at or above the fair market value on the date of grant. Options vest and expire according to terms established at the grant date.

Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation, encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the fair value of options granted. In December 2002, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, which amends SFAS No. 123. SFAS No. 148 requires more prominent and frequent disclosures about the effects of stock-based compensation.



The Company has adopted SFAS No. 148 and SFAS No. 123 and has used the prospective method of applying SFAS No. 123 for the transition. For stock options that have been granted prior to January 1, 2003, the Company will continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, because the grant price equaled or exceeded the market price on the date of grant for options issued by the Company, no compensation expense has been recognized for stock options granted prior to January 1, 2003. For the three months ended June 30, 2004 and 2003, the Company has recognized an after-tax stock option expense of approximately \$639,000 and \$227,000, respectively. For the six months ended June 30, 2004 and 2003, the Company has recognized an after-tax stock option expense of approximately \$1,454,000 and \$479,000, respectively.

Had compensation cost for the Company's stock options for all grants been recognized based upon the estimated fair value on the grant date under the fair value methodology prescribed by SFAS No. 123, as amended by SFAS No. 148, the Company's net income and earnings per share would have been as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income, as reported	\$ 21,814,497	\$ 17,681,608	\$ 39,763,967	\$ 28,706,509
Deduct total stock-based employee compensation expense determined under the fair value method for all awards granted prior to January 1, 2003, net of related tax effects	12,452	93,274	24,903	186,549
Net income, pro forma	\$ 21,802,045	\$ 17,588,334	\$ 39,739,064	\$ 28,519,960
<b>Earnings per share</b>				
Basic, as reported	\$ 0.91	\$ 0.72	\$ 1.65	\$ 1.17
Basic, pro forma	0.91	0.71	1.65	1.16
Diluted, as reported	0.89	0.71	1.62	1.15
Diluted, pro forma	0.89	0.70	1.62	1.14

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.

#### *Reclassifications*

Certain prior period amounts have been reclassified to conform to the 2004 presentation with no effect on net income or retained earnings as previously reported.

## 2. Trade Accounts Receivable, net

Trade accounts receivable consist of the following:

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	<b>2004</b>	<b>At June 30,</b>	<b>2003</b>	<b>At December 31,</b>	<b>2003</b>
Trade accounts receivable	\$	125,921,209	\$	97,961,040	\$ 68,717,357
Allowance for doubtful accounts		(1,790,277)		(2,270,983)	(1,889,210)
Allowance for sales discounts		(1,812,369)		(990,196)	(754,851)
	\$	122,318,563	\$	94,699,861	\$ 66,073,296

## 3. Inventories

The components of inventories consist of the following:

	2004	At June 30,	2003	At December 31,	2003
Raw materials	\$ 57,991,569		\$ 31,870,625		\$ 38,822,274
In-process products	16,037,483		14,461,112		15,132,723
Finished products	56,823,696		50,673,237		52,247,716
	\$ 130,852,748		\$ 97,004,974		\$ 106,202,713

## 4. Property, Plant and Equipment, net

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

	2004	At June 30,	2003	At December 31,	2003
Land	\$ 13,855,554		\$ 13,122,771		\$ 13,133,848
Buildings and site improvements	65,477,658		55,153,402		64,054,606
Leasehold improvements	5,916,884		5,885,042		5,833,533
Machinery and equipment	131,024,568		122,101,089		125,987,726
	216,274,664		196,262,304		209,009,713
Less accumulated depreciation and amortization	(113,549,412)		(101,569,556)		(105,397,774)
	102,725,252		94,692,748		103,611,939
Capital projects in progress	13,041,875		9,768,976		3,614,380
	\$ 115,767,127		\$ 104,461,724		\$ 107,226,319



## 5. Investments

As of June 30, 2004, the Company held a 35.0% investment in Keymark Enterprises, LLC ( Keymark ), for which it accounts using the equity method. The Company believes that the carrying value of its investment in Keymark exceeds its fair value and therefore has written down the value of its investment to zero. The Company's equity in the earnings or losses of this investment were not material in any of the periods covered in this report.

*Available-for-Sale Investments*

The Company's investments in all debt securities are classified as either cash and cash equivalents or available-for-sale investments. As of June 30, 2004 and 2003, the Company's investments were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>At June 30, 2004</b>				
Debt investments				
Municipal bonds	\$ 44,676,504	\$ 3,310	\$ 70,216	\$ 44,609,598
Commercial paper	5,007,655			5,007,655
Total debt investments	49,684,159	3,310	70,216	49,617,253
Money market instruments and funds	1,005,859			1,005,859
	\$ 50,690,018	\$ 3,310	\$ 70,216	\$ 50,623,112
<b>At June 30, 2003</b>				
Debt investments				
Municipal bonds	\$ 17,441,312	\$ 41,251	\$ 12,633	\$ 17,469,930
Commercial paper	6,622,816			6,622,816
Total debt investments	24,064,128	41,251	12,633	24,092,746
Money market instruments and funds	1,182,578			1,182,578
	\$ 25,246,706	\$ 41,251	\$ 12,633	\$ 25,275,324

Of the total estimated fair value of debt securities, \$6,013,514 and \$5,309,504 was classified as cash equivalents as of June 30, 2004 and 2003, respectively, and \$44,609,598 and \$19,965,820 was classified as short-term investments as of June 30, 2004 and 2003, respectively.

As of June 30, 2004, contractual maturities of the Company's available-for-sale investments were as follows:

	Amortized Cost	Estimated Fair Value
Amounts maturing in less than 1 year	\$ 7,646,251	\$ 7,634,467
Amounts maturing in 1 - 5 years	10,214,525	10,161,226

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Amounts maturing in 5 - 10 years	1,293,023	1,294,338
Amounts maturing after 10 years	25,522,705	25,519,567
	\$ 44,676,504	\$ 44,609,598

During the three and six months ended June 30, 2003, there were realized gains of \$3,497 and \$2,129 related to the sale of available-for-sale investments.

## 6. Debt

Outstanding debt at June 30, 2004 and 2003, and December 31, 2003, and the available credit at June 30, 2004, consisted of the following:

	Available Credit at June 30, 2004	Debt Outstanding		
		at June 30, 2004	2003	at December 31, 2003
Revolving line of credit, interest at bank's reference rate less 0.50% (at June 30, 2004, the bank's reference rate less 0.50% was 3.75%), expires November 2004	\$ 12,950,705	\$		\$
Revolving term commitment, interest at bank's prime rate less 0.50% (at June 30, 2004, the bank's prime rate less 0.50% was 3.75%), expires June 2005	9,200,000			
Revolving line of credit, interest at the bank's base rate plus 2% (at June 30, 2004, the bank's base rate plus 2% was 6.5%), expires September 2004	451,753			
Revolving line of credit, interest at 4.50%, expires August 2005	4,251,261	267,601	1,004,684	
Term loan, interest at LIBOR plus 1.375% (at June 30, 2004, LIBOR plus 1.375% was 2.545%), expires May 2008		1,200,000	1,500,000	1,350,000
Term loans, interest rates between 2.94% and 5.60%, expirations between 2006 and 2018		1,828,098	4,786,249	4,941,593
Standby letter of credit facilities	849,295			
	27,703,014	3,295,699	7,290,933	6,291,593
Less line of credit and current portion of long-term debt		(813,001)	(1,977,686)	(1,113,657)
Long-term debt, net of current portion		\$ 2,482,698	\$ 5,313,247	\$ 5,177,936
Standby letters of credit issued and outstanding	(849,295)			
	\$ 26,853,719			

As of June 30, 2004, the Company had one outstanding standby letter of credit in the amount of \$849,295 to guarantee performance on the Company's leased facility in the United Kingdom.

## 7. Commitments and Contingencies

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Note 9 to the consolidated financial statements in the Company's 2003 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 Company does not believe that the outcomes of currently pending matters will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

The Company's policy with regard to environmental liabilities is to accrue for future environmental assessments and remediation costs as they are discovered and become 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, stress corrosion cracking, hardness, wood preservative chemicals, misinstallations, environmental conditions or other factors can contribute to failure of fasteners and connectors. On occasion, some of the fasteners 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.

## 8. Segment Information

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<i>Net Sales</i>				
Connector products	\$ 162,144,000	\$ 129,435,000	\$ 304,654,000	\$ 229,823,000
Venting products	19,691,000	17,026,000	37,097,000	33,094,000
Total	\$ 181,835,000	\$ 146,461,000	\$ 341,751,000	\$ 262,917,000
<i>Income from Operations</i>				
Connector products	\$ 33,275,000	\$ 26,855,000	\$ 61,813,000	\$ 43,587,000
Venting products	1,962,000	1,998,000	3,603,000	4,196,000
All other	385,000	53,000	(486,000)	(392,000)
Total	\$ 35,622,000	\$ 28,906,000	\$ 64,930,000	\$ 47,391,000

	At June 30,		At December 31,
	2004	2003	2003
<i>Total Assets</i>			
Connector products	\$ 343,989,000	\$ 278,295,000	\$ 272,917,000
Venting products	57,155,000	48,515,000	38,628,000
All other	90,051,000	119,552,000	150,147,000
Total	\$ 491,195,000	\$ 446,362,000	\$ 461,692,000

Cash collected by the Company's subsidiaries is routinely transferred into the Company's cash management accounts and, therefore, has been included in the total assets of the segment entitled "All other." Cash and cash equivalent and short-term investment balances in the "All other

segment were approximately \$77,622,000, \$108,217,000 and \$139,021,000 as of June 30, 2004 and 2003, and December 31, 2003, respectively.

9. Subsequent Events

In July 2004, the Company signed a letter of intent to acquire the assets of Quik Drive, U.S.A., Inc. and its related companies, which manufacture collated fasteners and fastener delivery systems marketed in the U.S., Canada and Australia. The cost of the acquisition is proposed to be approximately \$30.0 million in cash and \$5.0 million in stock (which will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements). The transaction is proposed to be completed later this year. The transaction is subject to negotiation of a definitive agreement, regulatory and other approvals and other conditions.

In July 2004 the Company's Board of Directors declared a dividend of \$0.10 per share or approximately \$2.4 million payable in October 2004.

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

*Certain matters discussed below are forward-looking statements that involve risks and uncertainties, certain of which are discussed in this report and in other reports filed by the Company with the Securities and Exchange Commission. Actual results might differ materially from results suggested by any forward-looking statements in this report.*

The following is a discussion and analysis of the consolidated financial condition and results of operations for the Company for the three and six months ended June 30, 2004 and 2003. The following should be read in conjunction with the interim Condensed Consolidated Financial Statements and related Notes appearing elsewhere herein.

Results of Operations for the Three Months Ended June 30, 2004. Compared with the Three Months Ended June 30, 2003

Net sales increased 24.2% to \$181,835,310 for the second quarter of 2004 as compared to net sales of \$146,460,792 for the second quarter of 2003. Net income increased 23.4% to \$21,814,497 for the second quarter of 2004 as compared to net income of \$17,681,608 for the second quarter of 2003. Diluted net income per common share was \$0.89 for the first quarter of 2004 as compared to \$0.71 for the first quarter of 2003.

In the second quarter of 2004, sales growth occurred throughout North America and Europe. The growth in the United States was strongest in the western and northeastern regions. Simpson Strong-Tie's second quarter sales increased 25.3% over the same quarter last year, while Simpson Dura-Vent's sales increased 15.7%. Dealer distributors, contractor distributors and lumber dealers were the fastest growing Simpson Strong-Tie sales channels. The sales increase was broad based across most of Simpson Strong-Tie's major product lines. Engineered wood products and seismic and high wind products had the highest percentage growth rates in sales, while core products, which include joist hangers and column bases and caps, and anchor systems products showed solid growth. Sales of Simpson Dura-Vent's chimney, gas vent, and pellet vent products increased compared to the second quarter of 2003, while sales of its Direct-Vent product line decreased slightly.

Income from operations increased 23.2% from \$28,906,286 in the second quarter of 2003 to \$35,622,350 in the second quarter of 2004 and gross margins decreased from 41.6% in the second quarter of 2003 to 40.9% in the second quarter of 2004. This decrease was primarily due to increased material costs, mainly steel, the prices of which have continued to increase, partially offset by improved absorption of overhead costs resulting from increased sales volume. To reduce the influence of rising steel prices, the Company purchased additional steel in the fourth quarter of 2003 and early in the second quarter of 2004. In addition, the Company raised its prices in the second quarter of 2004 and has implemented another price increase in July of 2004. Steel prices are expected to remain unsettled over a number of months and if they stay at their current levels or increase further and the Company is not able to maintain its price increases, its margins could deteriorate.

Selling expenses increased 23.9% from \$12,383,934 in the second quarter of 2003 to \$15,338,162 in the second quarter of 2004, primarily due to increased costs associated with the addition of sales personnel and increased promotional activities. General and administrative expenses increased 19.8% from \$19,601,051 in the second quarter of 2003 to \$23,490,160 in the second quarter of 2004. This increase was primarily due to increased cash profit sharing, as a result of higher operating income, and stock option expenses. The increase was also partially due to higher legal expenses and increased cost associated with the addition of administrative employees. The tax rate was 38.5% in the second quarter of 2004, down from 39.1% in the second quarter of 2003. The decrease was primarily due to tax credits in an enterprise zone related to the expansion of the Company's facilities in Stockton, California, and tax credits related to research and development costs.



Results of Operations for the Six Months Ended June 30, 2004, Compared  
with the Six Months Ended June 30, 2003

Net sales increased 30.0% to \$341,751,045 in the first half of 2004 as compared to net sales of \$262,916,972 in the first half of 2003. Net income increased 38.5% to \$39,763,967 in the first half of 2004 as compared to net income of \$28,706,509 in the first half of 2003. Diluted net income per common share was \$1.62 in the first half of 2004 as compared to \$1.15 in the first half of 2003.

In the first half of 2004, sales growth occurred throughout North America and Europe. The growth in the United States was strongest in the northeastern, southern and western regions. Simpson Strong-Tie's sales increased 32.6%

over the first half of 2003, while Simpson Dura-Vent's sales increased 12.1%. Dealer distributors, lumber dealers and contractor distributors were the fastest growing Simpson Strong-Tie sales channels. The sales increase was broad based across most of Simpson Strong-Tie's major product lines. Engineered wood products and seismic and high wind products had the highest percentage growth rates in sales, while core products and anchor systems products showed solid growth. Sales of Simpson Strong-Tie's Strong-Wall products were strong during the first half of 2004, primarily due to the growth in the first quarter. Sales of Simpson Dura-Vent's gas vent, chimney, and pellet vent products increased compared to the first half of 2003, while sales of its Direct-Vent product line decreased.

Income from operations increased 37.0% from \$47,391,431 in the first half of 2003 to \$64,929,638 in the first half of 2004 and gross margins increased from 40.5% in the first half of 2003 to 40.7% in the first half of 2004. This increase was primarily due to improved absorption of overhead costs resulting from increased sales volume as well as other production and delivery costs, partially offset by an increase in material costs, mainly steel, the prices of which have continued to increase.

Selling expenses increased 18.7% from \$23,910,643 in the first half of 2003 to \$28,383,690 in the first half of 2004, primarily due to increased costs associated with the addition of sales personnel, including those related to the acquisition in May 2003 of MGA Construction Hardware & Steel Fabricating Limited and MGA Connectors Limited (collectively, MGA) in Canada, and increased promotional activities. General and administrative expenses increased 29.9% from \$35,199,776 in the first half of 2003 to \$45,715,980 in the first half of 2004. This increase was primarily due to increased cash profit sharing, as a result of higher operating income, and stock option expenses. The increase was also partially due to higher legal expenses and increased cost associated with the addition of administrative employees, including those related to the acquisition of MGA. In addition, in the first quarter of 2004, the Company donated \$0.5 million to a university in central California to help fund the research and development of innovative construction practices. The tax rate was 38.9% in the first half of 2004, down from 39.7% in the first half of 2003. The decrease was primarily due to tax credits in an enterprise zone related to the expansion of the Company's facilities in Stockton, California, and tax credits related to research and development costs.

#### Liquidity and Sources of Capital

As of June 30, 2004, working capital was \$268.0 million as compared to \$256.6 million at June 30, 2003, and \$269.5 million at December 31, 2003. The decrease in working capital from December 31, 2003, was primarily due to the increase in the Company's trade accounts receivable of approximately \$56.2 million, resulting from higher sales levels. There was also an increase in inventories of approximately \$24.7 million primarily due to raw material purchases, mainly steel, to accumulate raw material stock to secure supplies as prices rose. In addition, there was a decrease in accrued profit sharing trust of approximately \$2.5 million as a result of the Company making its annual contribution to employee accounts in March 2004. Offsetting these factors was a decrease in cash and cash equivalents of approximately \$60.7 million and an increase in trade accounts payable of approximately \$11.0 million. Accrued liabilities increased by approximately \$6.8 million, primarily as a result of higher accrued rebates and for the dividend payable in July 2004. Accrued cash profit sharing, which is based on operating income, also increased, by approximately \$5.7 million. The balance of the change in working capital was due to the fluctuation of various other asset and liability accounts. The working capital change and changes in noncurrent assets and liabilities, combined with net income and noncash expenses, including depreciation, amortization and stock compensation charges, totaling approximately \$52.2 million, resulted in net cash used in operating activities of approximately \$10.1 million. As of June 30, 2004, the Company had unused credit facilities available of approximately \$26.9 million.

The Company used approximately \$19.0 million in its investing activities of which approximately \$18.7 million was used for capital expenditures and approximately \$0.6 million was used to acquire 100% of the shares of ATF Furrer Holz GmbH (ATF), in Switzerland. ATF distributes a line of hidden connectors in some European countries. Approximately \$6.4 million of the capital expenditures comprised real estate and related purchases, primarily for the construction of the Company's new manufacturing facility in McKinney, Texas. This facility is expected to be completed around the end of 2004. The Company has increased its estimated capital spending by approximately \$19.0 million, to approximately \$73.0 million, over the next six to twelve months to add capacity to meet increased demand for its products.

In July 2004, the Company signed a letter of intent to acquire the assets of Quik Drive, U.S.A., Inc. and its related companies, which manufacture collated fasteners and fastener delivery systems marketed in the U.S., Canada and Australia. The cost of the acquisition is proposed to be approximately \$30.0 million in cash and \$5.0 million in stock

(which will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements). The transaction is proposed to be completed later this year. The transaction is subject to negotiation of a definitive agreement, regulatory and other approvals and other conditions.

The Company's financing activities used net cash of approximately \$31.5 million, \$28.1 million of which was used for the repurchase of 518,427 shares of its Common Stock as part of the \$50.0 million that the Company's Board of Directors authorized in December 2003 to reduce the dilutive effect of recently granted stock options. The Company plans to repurchase 57,000 additional shares under this plan in the third quarter of 2004, 34,400 of which were purchased through August 5, 2004. The approximate cost of this transaction is expected to be between \$3.0 million and \$3.5 million at current prices. In addition, the Company repaid approximately \$3.0 million of its debt at its European subsidiaries. Other uses of cash for financing activities included the payment of a cash dividend in April 2004. In July 2004 the Company paid the cash dividend that was declared in April 2004 and the Company's Board of Directors declared a dividend to be paid October 2004. Each dividend is \$0.10 per share or approximately \$2.4 million each. Approximately \$2.0 million in cash was provided by the exercise of stock options.

The Company believes that cash generated by operations and borrowings available under its existing credit agreements will be sufficient for the Company's working capital needs and planned capital expenditures over the next twelve months. Depending on the Company's future growth and possible acquisitions, it may become necessary to secure additional sources of financing.

The Company believes that the effect of inflation on the Company has not been material in recent years, as inflation rates have remained relatively low. However, recent increases in the price of steel, the Company's main raw material, and the possibility of further increases, which are expected over the short-term, may adversely affect the Company's margins if it cannot recover the higher costs through price increases.

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

The Company's short-term investments consisted of debt securities of approximately \$44.6 million as of June 30, 2004. These securities, like all fixed income instruments, are subject to interest rate risk and will vary in value as market interest rates fluctuate. If market interest rates were to increase immediately and uniformly by 10% or less from levels as of June 30, 2004, the decline in the fair value of the investments would not be material.

The Company has foreign exchange rate risk in its international operations, primarily Europe and Canada, and through purchases from foreign vendors. The Company does not currently hedge this risk. If the exchange rate were to change by 10% in any one country where the Company has operations, the change in net income would not be material to its operations taken as a whole. The translation adjustment resulted in losses of approximately \$0.8 million and \$1.6 million in the three and six months ended June 30, 2004, respectively, primarily due to the effect of the strengthening of the U.S. dollar in relation to European and Canadian currencies, with the exception of the British Pound against which the U.S. dollar weakened.

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

As of June 30, 2004, an evaluation 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 ), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective as of that date.

We have determined that there are deficiencies in our control systems and we are working toward remediating them. We have not yet determined if any of the deficiencies are or would be significant or may be material weaknesses. The Company has operated and continues to operate with a lean management and administrative organization. The Company's management is considering increasing the segregation of duties and authority relating to various Company processes and financial functions. In its continuing review, management may find it necessary or advisable to add human resources and enhance control procedures, to better protect those processes and functions from the possibility of error and abuse. Management's review is ongoing. New procedures may be developed and implemented from time to time, as the need for them becomes apparent.

The CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective because of controls that are in place to mitigate deficiencies. Those controls include overall management oversight, review and analysis of the financial reports for consistency with expected performance criteria, rigorous reporting procedures, conservative financial policies and management's assessment of the competence, integrity and tenure of the Company's employees in key positions.

No significant changes in the Company's internal controls or other factors have occurred, however, that could significantly affect controls subsequent to June 30, 2004.



## PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The Company does not believe that the outcomes of these matters will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

**Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.**

On April 22, 2004, the Company announced its intention to begin to repurchase up to approximately 575,000 shares of its Common Stock in the open market in order to reduce the dilutive effect of recently granted stock options. The repurchase program is part of the \$50.0 million that the Company's Board of Directors authorized in December 2003. This authorization will remain in effect through December 31, 2004. The following table presents the monthly purchases by the Company during the second quarter of 2004:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
April 1, 2004 - April 30, 2004	64,800	\$ 53.22	64,800	510,627
May 1, 2004 - May 31, 2004	287,927	\$ 53.51	287,927	222,700
June 1, 2004 - June 30, 2004	165,700	\$ 55.92	165,700	57,000
Total	518,427		518,427	

(1) The total number of shares to be repurchased under this plan is approximate. The Company currently plans to repurchase 57,000 shares in the third quarter of 2004, 34,400 of which were purchased through August 5, 2004.

**Item 3. Defaults Upon Senior Securities.**

None.





**Item 4. Submission of Matters to a Vote of Security Holders.**

The Annual Meeting of Shareholders ( Annual Meeting ) was held on April 7, 2004. The following two nominees were elected as directors by the votes indicated:

Name	Total Votes for Each Director	Total Votes Withheld from Each Director	Term Expires*
Stephen B. Lamson	22,355,530	492,320	2007
Peter N. Louras, Jr.	22,363,853	483,997	2007

\* The term expires on the date of the Annual Meeting in the year indicated.

The terms as directors of Jennifer A. Chatman, Earl F. Cheit, Thomas J Fitzmyers, Robin G. MacGillivray, Barclay Simpson and Barry Lawson Williams continued after the meeting.

The following proposals were also adopted at the Annual Meeting by the vote indicated:

Proposal	For	Against	Abstain	Broker Non-Vote
To amend the Company's Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance from 40,000,000 shares to 80,000,000 shares	21,442,056	1,387,991	17,803	
To ratify the appointment of PricewaterhouseCoopers LLP as independent registered independent accounting firm of the Company for 2003	21,392,778	1,438,216	16,856	

**Item 5. Other Information.**

None.

**Item 6. Exhibits and Reports on Form 8-K.**

a. Exhibits.

10.1 Lease Amending Agreement, dated October 1, 2003, between Minuk Developments Inc. and Simpson Strong-Tie Canada Limited and Simpson Manufacturing Co., Inc. (Incorporated by reference to Registrant's quarterly report on Form 10-Q for the quarter ended June 30, 2004, filed on August 9, 2004)

10.2 Lease Agreement, dated November 14, 2003, between Stone Mountain Industrial Park, Inc. and Simpson Strong-Tie Company Inc. (Incorporated by reference to Registrant's quarterly report on Form 10-Q for the quarter ended June 30, 2004, filed on August 9, 2004)

11. Statements re computation of earnings per share.

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

32. Section 1350 Certifications.

b. Reports on Form 8-K

Report on Form 8-K, dated April 22, 2004, reporting under item 9 the Company's announcement of its first quarter 2004 earnings.

Report on Form 8-K, dated April 23, 2004, reporting under item 9 the Company's condensed consolidated statements of cash flows for the three months ended March 31, 2004 and 2003.

Report on Form 8-K, dated May 14, 2004, reporting under item 5 that the Company's largest customer, The Home Depot, had announced its intention to purchase White Cap Construction Supply Inc., also a major customer of the Company.

**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 17, 2004

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