

SIMPSON MANUFACTURING CO INC /CA/  
Form 10-Q/A  
August 15, 2008

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

Washington, D.C. 20549

**FORM 10-Q/A**

Amendment No. 1

(Mark One)

**x**

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

For the quarterly period ended: March 31, 2008

**OR**

**o**

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

For the transition period from to

Commission file number: 1-13429

**Simpson Manufacturing Co., Inc.**

(Exact name of registrant as specified in its charter)

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

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

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**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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the Registrant's common stock outstanding as of March 31, 2008: 48,586,554

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EXPLANATORY NOTE

Simpson Manufacturing Co., Inc. (the Company) is filing this Amendment No. 1 (the Amendment) to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, which was originally filed on May 9, 2008 (Original Filing), to correct the reference to the quarter covered by the certification in Exhibit 32. The Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosure herein to reflect events or circumstances since the Original Filing. The Amendment should be read in conjunction with the Company's filings with the Securities and Exchange Commission subsequent to the Original Filing.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

*(In thousands, unaudited)*

|                                                      | 2008       | March 31,<br>2007 | December 31,<br>2007 |
|------------------------------------------------------|------------|-------------------|----------------------|
| <b>ASSETS</b>                                        |            |                   |                      |
| Current assets                                       |            |                   |                      |
| Cash and cash equivalents                            | \$ 164,381 | \$ 149,310        | \$ 186,142           |
| Trade accounts receivable, net                       | 107,634    | 126,577           | 88,340               |
| Inventories                                          | 227,855    | 208,797           | 218,342              |
| Deferred income taxes                                | 11,236     | 11,042            | 11,623               |
| Assets held for sale                                 | 9,677      |                   | 9,677                |
| Other current assets                                 | 8,825      | 8,003             | 8,753                |
| Total current assets                                 | 529,608    | 503,729           | 522,877              |
| Property, plant and equipment, net                   | 195,319    | 206,442           | 198,117              |
| Goodwill                                             | 57,845     | 44,617            | 57,418               |
| Intangible assets                                    | 22,142     | 9,123             | 23,239               |
| Other noncurrent assets                              | 18,513     | 12,445            | 16,028               |
| Total assets                                         | \$ 823,427 | \$ 776,356        | \$ 817,679           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>          |            |                   |                      |
| Current liabilities                                  |            |                   |                      |
| Line of credit and current portion of long-term debt | \$ 3,390   | \$ 2,691          | \$ 1,029             |
| Trade accounts payable                               | 34,745     | 35,863            | 27,226               |
| Accrued liabilities                                  | 30,357     | 34,239            | 39,188               |
| Income taxes payable                                 | 1,639      | 5,994             |                      |
| Accrued profit sharing trust contributions           | 2,411      | 10,309            | 8,651                |
| Accrued cash profit sharing and commissions          | 4,665      | 8,345             | 4,129                |
| Accrued workers' compensation                        | 4,116      | 3,712             | 4,116                |
| Total current liabilities                            | 81,323     | 101,153           | 84,339               |
| Long-term debt, net of current portion               |            | 337               |                      |
| Other long-term liabilities                          | 12,144     | 8,775             | 9,940                |
| Total liabilities                                    | 93,467     | 110,265           | 94,279               |
| Commitments and contingencies (Note 7)               |            |                   |                      |
| Stockholders' equity                                 |            |                   |                      |
| Common stock, at par value                           | 486        | 484               | 485                  |
| Additional paid-in capital                           | 127,573    | 118,590           | 126,119              |
| Retained earnings                                    | 574,988    | 534,597           | 571,499              |
| Accumulated other comprehensive income               | 26,913     | 12,420            | 25,297               |
| Total stockholders' equity                           | 729,960    | 666,091           | 723,400              |

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|                                            |    |         |    |         |    |         |
|--------------------------------------------|----|---------|----|---------|----|---------|
| Total liabilities and stockholders' equity | \$ | 823,427 | \$ | 776,356 | \$ | 817,679 |
|--------------------------------------------|----|---------|----|---------|----|---------|

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

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

**Condensed Consolidated Statements of Operations**

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

|                                                | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------------------------|-----------------------------------------|-------------|
|                                                | <b>2008</b>                             | <b>2007</b> |
| Net sales                                      | \$ 167,656                              | \$ 193,155  |
| Cost of sales                                  | 111,398                                 | 121,533     |
| Gross profit                                   | 56,258                                  | 71,622      |
| Operating expenses:                            |                                         |             |
| Research and development and other engineering | 5,103                                   | 5,260       |
| Selling                                        | 19,807                                  | 18,154      |
| General and administrative                     | 17,874                                  | 21,638      |
|                                                | 42,784                                  | 45,052      |
| Income from operations                         | 13,474                                  | 26,570      |
| Loss on equity method investment, before tax   |                                         | (33)        |
| Interest income, net                           | 1,128                                   | 1,374       |
| Income before income taxes                     | 14,602                                  | 27,911      |
| Provision for income taxes                     | 6,250                                   | 10,621      |
| Net income                                     | \$ 8,352                                | \$ 17,290   |
| Net income per common share                    |                                         |             |
| Basic                                          | \$ 0.17                                 | \$ 0.36     |
| Diluted                                        | \$ 0.17                                 | \$ 0.35     |
| Cash dividends declared per common share       | \$ 0.10                                 | \$ 0.10     |
| Number of shares outstanding                   |                                         |             |
| Basic                                          | 48,574                                  | 48,414      |
| Diluted                                        | 48,931                                  | 48,886      |

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**

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

(In thousands except per-share amounts, unaudited)

|                                                               | Common Stock<br>Shares | Common Stock<br>Par Value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total      |
|---------------------------------------------------------------|------------------------|---------------------------|----------------------------------|----------------------|-------------------------------------------------|-------------------|------------|
| Balance, January 1, 2007                                      | 48,412                 | \$ 484                    | \$ 114,535                       | \$ 526,346           | \$ 11,494                                       | \$                | \$ 652,859 |
| Comprehensive income:                                         |                        |                           |                                  |                      |                                                 |                   |            |
| Net income                                                    |                        |                           |                                  | 17,290               |                                                 |                   | 17,290     |
| Other comprehensive income:                                   |                        |                           |                                  |                      |                                                 |                   |            |
| Translation adjustment, net of<br>tax of \$17                 |                        |                           |                                  |                      | 926                                             |                   | 926        |
| Comprehensive income                                          |                        |                           |                                  |                      |                                                 |                   | 18,216     |
| Options exercised                                             | 110                    | 1                         | 1,917                            |                      |                                                 |                   | 1,918      |
| Stock compensation                                            |                        |                           | 1,468                            |                      |                                                 |                   | 1,468      |
| Tax benefit of options exercised                              |                        |                           | 363                              |                      |                                                 |                   | 363        |
| Cash dividends declared on<br>Common stock (\$0.10 per share) |                        |                           |                                  | (4,849)              |                                                 |                   | (4,849)    |
| Common stock issued at \$31.65<br>per share                   | 10                     |                           | 307                              |                      |                                                 |                   | 307        |
| Repurchase of common stock                                    | (122)                  |                           |                                  |                      |                                                 | (4,191)           | (4,191)    |
| Retirement of common stock                                    |                        | (1)                       |                                  | (4,190)              |                                                 | 4,191             |            |
| Balance, March 31, 2007                                       | 48,410                 | 484                       | 118,590                          | 534,597              | 12,420                                          |                   | 666,091    |
| Comprehensive income:                                         |                        |                           |                                  |                      |                                                 |                   |            |
| Net income                                                    |                        |                           |                                  | 51,452               |                                                 |                   | 51,452     |
| Other comprehensive income:                                   |                        |                           |                                  |                      |                                                 |                   |            |
| Translation adjustment, net of<br>tax of \$44                 |                        |                           |                                  |                      | 12,877                                          |                   | 12,877     |
| Comprehensive income                                          |                        |                           |                                  |                      |                                                 |                   | 64,329     |
| Options exercised                                             | 142                    | 1                         | 2,913                            |                      |                                                 |                   | 2,914      |
| Stock compensation                                            |                        |                           | 4,425                            |                      |                                                 |                   | 4,425      |
| Tax benefit of options exercised                              |                        |                           | 191                              |                      |                                                 |                   | 191        |
| Cash dividends declared on<br>common stock (\$0.30 per share) |                        |                           |                                  | (14,550)             |                                                 |                   | (14,550)   |
| Balance, December 31, 2007                                    | 48,552                 | 485                       | 126,119                          | 571,499              | 25,297                                          |                   | 723,400    |
| Comprehensive income:                                         |                        |                           |                                  |                      |                                                 |                   |            |
| Net income                                                    |                        |                           |                                  | 8,352                |                                                 |                   | 8,352      |
| Other comprehensive income:                                   |                        |                           |                                  |                      |                                                 |                   |            |
| Translation adjustment, net of<br>tax of \$17                 |                        |                           |                                  |                      | 1,616                                           |                   | 1,616      |
| Comprehensive income                                          |                        |                           |                                  |                      |                                                 |                   | 9,968      |
| Options exercised                                             | 26                     | 1                         | 507                              |                      |                                                 |                   | 508        |
| Stock compensation                                            |                        |                           | 765                              |                      |                                                 |                   | 765        |
| Tax benefit of options exercised                              |                        |                           | (65)                             |                      |                                                 |                   | (65)       |
| Cash dividends declared on<br>Common stock (\$0.10 per share) |                        |                           |                                  | (4,863)              |                                                 |                   | (4,863)    |
| Common stock issued at \$26.59<br>per share                   | 9                      |                           | 247                              |                      |                                                 |                   | 247        |
| Balance, March 31, 2008                                       | 48,587                 | \$ 486                    | \$ 127,573                       | \$ 574,988           | \$ 26,913                                       | \$                | \$ 729,960 |

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

## Simpson Manufacturing Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

*(In thousands, unaudited)*

|                                                                                   | Three Months<br>Ended March 31, |            |
|-----------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                   | 2008                            | 2007       |
| <b>Cash flows from operating activities</b>                                       |                                 |            |
| Net income                                                                        | \$ 8,352                        | \$ 17,290  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Loss (gain) on sale of assets                                                     | 2                               | (6)        |
| Depreciation and amortization                                                     | 7,420                           | 7,078      |
| Deferred income taxes                                                             | 172                             | (507)      |
| Noncash compensation related to stock plans                                       | 936                             | 1,677      |
| Loss in equity method investment                                                  |                                 | 33         |
| Excess tax benefit of options exercised                                           | (25)                            | (431)      |
| Provision for (recovery of) doubtful accounts                                     | (727)                           | 271        |
| Changes in operating assets and liabilities, net of effects of acquisitions:      |                                 |            |
| Trade accounts receivable                                                         | (17,788)                        | (30,629)   |
| Inventories                                                                       | (8,514)                         | 9,069      |
| Trade accounts payable                                                            | 2,069                           | 11,396     |
| Income taxes payable                                                              | 3,043                           | 8,504      |
| Accrued profit sharing trust contributions                                        | (6,228)                         | 1,687      |
| Accrued cash profit sharing and commissions                                       | 512                             | 528        |
| Other current assets                                                              | (2,650)                         | (3,471)    |
| Accrued liabilities                                                               | (4,196)                         | (3,735)    |
| Other long-term liabilities                                                       | 1,474                           | (1,714)    |
| Other noncurrent assets                                                           | (415)                           | 1,737      |
| Net cash provided by (used in) operating activities                               | (16,563)                        | 18,777     |
| <b>Cash flows from investing activities</b>                                       |                                 |            |
| Capital expenditures                                                              | (2,849)                         | (14,164)   |
| Proceeds from sale of capital assets                                              | 19                              | 20         |
| Asset acquisitions                                                                |                                 | (327)      |
| Net cash used in investing activities                                             | (2,830)                         | (14,471)   |
| <b>Cash flows from financing activities</b>                                       |                                 |            |
| Line of credit borrowings                                                         | 2,206                           | 2,347      |
| Repayment of debt and line of credit borrowings                                   |                                 | (2)        |
| Repurchase of common stock                                                        |                                 | (4,191)    |
| Issuance of common stock                                                          | 508                             | 1,918      |
| Excess tax benefit of options exercised                                           | 25                              | 431        |
| Dividends paid                                                                    | (4,857)                         | (3,875)    |
| Net cash used in financing activities                                             | (2,118)                         | (3,372)    |
| Effect of exchange rate changes on cash                                           | (250)                           | 77         |
| Net increase (decrease) in cash and cash equivalents                              | (21,761)                        | 1,011      |
| Cash and cash equivalents at beginning of period                                  | 186,142                         | 148,299    |
| Cash and cash equivalents at end of period                                        | \$ 164,381                      | \$ 149,310 |
| <b>Noncash activity during the period</b>                                         |                                 |            |
| Noncash capital expenditures                                                      | \$ 161                          | \$ 1,438   |
| Dividends declared but not paid                                                   | \$ 4,863                        | \$ 4,849   |

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|                                                     |    |     |    |     |
|-----------------------------------------------------|----|-----|----|-----|
| Issuance of Company's common stock for compensation | \$ | 247 | \$ | 307 |
| Noncash asset acquisition                           | \$ |     | \$ | 608 |

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*



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

### *Interim Period Reporting*

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America have been condensed or omitted. These interim statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2007 Annual Report on Form 10-K (the 2007 Annual Report).

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

### *Revenue Recognition*

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

### *Allowance for Doubtful Accounts*

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

*Net Income Per Common Share*

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

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

| (in thousands, except<br>per-share amounts) | Three Months Ended,<br>March 31, 2008 |        |              | Three Months Ended,<br>March 31, 2007 |        |              |
|---------------------------------------------|---------------------------------------|--------|--------------|---------------------------------------|--------|--------------|
|                                             | Income                                | Shares | Per<br>Share | Income                                | Shares | Per<br>Share |
| <b>Basic EPS</b>                            |                                       |        |              |                                       |        |              |
| Income available to common stockholders     | \$ 8,352                              | 48,574 | \$ 0.17      | \$ 17,290                             | 48,414 | \$ 0.36      |
| <b>Effect of Dilutive Securities</b>        |                                       |        |              |                                       |        |              |
| Stock options                               |                                       | 357    |              |                                       | 472    | (0.01)       |
| <b>Diluted EPS</b>                          |                                       |        |              |                                       |        |              |
| Income available to common stockholders     | \$ 8,352                              | 48,931 | \$ 0.17      | \$ 17,290                             | 48,886 | \$ 0.35      |

Anti-dilutive shares attributable to outstanding stock options were excluded from the calculation of diluted net income per share. For both the three months ended March 31, 2008 and 2007, 1.1 million shares subject to stock options were anti-dilutive.

*Accounting for Stock-Based Compensation*

The Company maintains two stock option plans under which it may grant incentive stock options and non-qualified stock options, although the Company has granted only non-qualified stock options under these plans. The Simpson Manufacturing Co., Inc. 1994 Stock Option Plan (the 1994 Plan ) is principally for the Company's employees and the Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan (the 1995 Plan ) is for its independent directors. The Company generally grants options under each of the 1994 Plan and the 1995 Plan once each year. The exercise price per share under each option granted in April and February 2008 and February 2007 under the 1994 Plan equaled the closing market price per share of the Company's Common Stock as reported by the New York Stock Exchange for the day preceding the date that the Company's Board of Directors approved the grant. The exercise price per share under each option granted under the 1995 Plan is at the fair market value on the date specified in the 1995 Plan. Options vest and expire according to terms established at the grant date.

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



The following table represents the Company's stock option activity for the three months ended March 31, 2008 and 2007:

| (in thousands)                                                    | Three Months Ended<br>March 31, |      |      |       |
|-------------------------------------------------------------------|---------------------------------|------|------|-------|
|                                                                   | 2008                            |      | 2007 |       |
| Stock option expense recognized in operating expenses             | \$                              | 900  | \$   | 1,545 |
| Tax benefit of stock option expense in provision for income taxes |                                 | 355  |      | 589   |
| Stock option expense, net of tax                                  | \$                              | 545  | \$   | 956   |
| Fair value of shares vested                                       | \$                              | 765  | \$   | 1,468 |
| Proceeds to the Company from the exercise of stock options        | \$                              | 508  | \$   | 1,918 |
| Tax benefit from exercise of stock options                        | \$                              | (65) | \$   | 363   |

|                                            | At March 31, |     |      |     |
|--------------------------------------------|--------------|-----|------|-----|
|                                            | 2008         |     | 2007 |     |
| Stock option cost capitalized in inventory | \$           | 117 | \$   | 188 |

The amounts included in cost of sales, research and development and other engineering, selling, or general and administrative expenses depend on the job functions performed by the employees to whom the stock options were granted. Shares of common stock issued on exercise of stock options under the plans are registered under the Securities Act of 1933.

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

In April 2008, the Company's Board of Directors approved the grant of stock options on an additional 14 thousand shares at an exercise price of \$25.74.

#### *Fair Value of Financial Instruments*

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

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The Company only has Treasury Instruments and money market funds aggregating \$63.4 million, which are maintained in cash equivalents and are carried at fair value, approximating cost, based upon Level 1 inputs.

### *Recently Issued Accounting Standards*

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires

expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses, including combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after January 1, 2009, regardless of the date of the original business combination. Management has not yet determined the effect, if any, on the Company's financial statements for its fiscal year ending December 31, 2009.

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

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

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 allows entities to choose to elect, at specified dates, to measure eligible financial instruments at fair value. Entities must report unrealized gains and losses on items for which the fair value option has been elected in earnings. The Company did not make any fair value elections in connection with its adoption of the provisions of SFAS No. 159 for financial assets and financial liabilities during the quarter ended March 31, 2008.

## 2. Trade Accounts Receivable, net

Trade accounts receivable consist of the following:

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| (in thousands)                            | At March 31, |            | At December 31, |  |
|-------------------------------------------|--------------|------------|-----------------|--|
|                                           | 2008         | 2007       | 2007            |  |
| Trade accounts receivable                 | \$ 112,019   | \$ 131,380 | \$ 92,879       |  |
| Allowance for doubtful accounts           | (1,968)      | (2,502)    | (2,724)         |  |
| Allowance for sales discounts and returns | (2,417)      | (2,301)    | (1,815)         |  |
|                                           | \$ 107,634   | \$ 126,577 | \$ 88,340       |  |

## 3. Inventories

Inventories consist of the following:

| (in thousands)      | 2008       | At March 31,<br>2007 | At December 31,<br>2007 |
|---------------------|------------|----------------------|-------------------------|
| Raw materials       | \$ 85,756  | \$ 81,753            | \$ 82,164               |
| In-process products | 25,592     | 20,778               | 23,674                  |
| Finished products   | 116,507    | 106,266              | 112,504                 |
|                     | \$ 227,855 | \$ 208,797           | \$ 218,342              |

## 4. Property, Plant and Equipment, net

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

| (in thousands)                                 | 2008       | At March 31,<br>2007 | At December 31,<br>2007 |
|------------------------------------------------|------------|----------------------|-------------------------|
| Land                                           | \$ 19,783  | \$ 23,838            | \$ 19,820               |
| Buildings and site improvements                | 131,907    | 121,006              | 131,166                 |
| Leasehold improvements                         | 4,005      | 2,832                | 4,054                   |
| Machinery and equipment                        | 214,232    | 190,308              | 213,188                 |
|                                                | 369,927    | 337,984              | 368,228                 |
| Less accumulated depreciation and amortization | (182,262)  | (161,607)            | (175,893)               |
|                                                | 187,665    | 176,377              | 192,335                 |
| Capital projects in progress                   | 7,654      | 30,065               | 5,782                   |
|                                                | \$ 195,319 | \$ 206,442           | \$ 198,117              |

The Company's vacant facilities in San Leandro, California, and in McKinney, Texas, have been classified as assets held for sale as of March 31, 2008. Both facilities are associated with the connector segment. The sale of the McKinney facility was completed in April 2008 for \$1.8 million.

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

## 5. Investments

*Equity Method Investment*

The Company has a 35% equity interest in Keymark Enterprises, LLC ( Keymark ), for which the Company accounts using the equity method. Keymark develops software that assists in the design and engineering of residential structures. The Company's relationship with Keymark includes the specification of the Company's products in the Keymark software. The Company has no obligation to make any additional future capital contributions to Keymark.

## 6. Debt

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

| (dollar amounts in thousands)                                                                                                                                                                                                    | Available<br>Credit at<br>March 31,<br>2008 | Debt Outstanding        |                         |                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------------------|-------------------------|----------------------------|
|                                                                                                                                                                                                                                  |                                             | at<br>March 31,<br>2008 | at<br>March 31,<br>2007 | at<br>December 31,<br>2007 |
| Revolving line of credit, interest at LIBOR plus 0.27%<br>(at March 31, 2008, LIBOR plus 0.27% was 2.98%),<br>matures October 2012, commitment fees payable at the<br>annual rate of 0.08% on the unused portion of the facility | \$ 200,000                                  | \$                      | \$                      | \$                         |
| Revolving line of credit, interest at the bank's base rate<br>plus 2% (at March 31, 2008, the bank's base rate plus 2%<br>was 7.25%), expires October 2008                                                                       | 496                                         |                         |                         |                            |
| Revolving lines of credit, interest rates between 4.88%<br>and 6.01%                                                                                                                                                             | 2,698                                       | 3,390                   | 2,363                   | 1,029                      |
| Term loan, interest at LIBOR plus 1.375% repaid<br>June 2007                                                                                                                                                                     |                                             |                         | 450                     |                            |
| Term loans, interest rates between 4.00% and 5.00%,<br>repaid May 2007                                                                                                                                                           |                                             |                         | 215                     |                            |
|                                                                                                                                                                                                                                  | 203,194                                     | 3,390                   | 3,028                   | 1,029                      |
| Less line of credit and current portion of long-term debt                                                                                                                                                                        |                                             | (3,390)                 | (2,691)                 | (1,029)                    |
| Long-term debt, net of current portion                                                                                                                                                                                           | \$                                          | \$                      | 337                     | \$                         |
| Available credit                                                                                                                                                                                                                 | \$ 203,194                                  |                         |                         |                            |

## 7. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2007 Annual Report provides information concerning commitments and contingencies. From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The resolution of claims and litigation is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows and results of operations.

The Company's policy with regard to environmental liabilities is to accrue for future environmental assessments and remediation costs when information becomes available that indicates that it is probable that the Company is liable for any related claims and assessments and the amount of the liability is reasonably estimable. The Company does not believe that these matters will have a material adverse effect on the Company's financial condition, cash flows or results of operations. In September 2007, the Company accrued \$0.3 million related to clean-up and regulatory costs associated with its San Leandro, California, facility (see Note 4).

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

results to date, the Company believes that, generally, if its products are appropriately selected, installed and used in accordance with the Company's guidance, they may be reliably used in appropriate applications.

## 8. Stock Option Plans

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

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

Black-Scholes option pricing model assumptions for options granted in 2008 and 2007 are as follows:

| Number<br>Of Options<br>Granted<br>(in thousands) | Grant<br>Date | Risk<br>Free<br>Interest<br>Rate | Dividend<br>Yield | Expected<br>Life | Volatility | Exercise Price | Weighted<br>Average<br>Fair<br>Value |
|---------------------------------------------------|---------------|----------------------------------|-------------------|------------------|------------|----------------|--------------------------------------|
| <b>1994 Plan</b>                                  |               |                                  |                   |                  |            |                |                                      |
| 14                                                | 04/23/08      | 3.15%                            | 1.55%             | 6.0 years        | 27.1%      | \$ 25.74       | \$ 6.92                              |
| 40                                                | 02/13/08      | 2.90%                            | 1.68%             | 6.0 years        | 27.1%      | \$ 23.78       | \$ 6.16                              |
| 123                                               | 02/02/07      | 4.84%                            | 1.19%             | 5.9 years        | 29.0%      | \$ 33.62       | \$ 11.11                             |

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

The following table summarizes the Company's stock option activity for the three months ended March 31, 2008:

| Non-Qualified Stock Options    | Shares<br>(in thousands) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (in years) | Aggregate<br>Intrinsic<br>Value *<br>(in thousands) |
|--------------------------------|--------------------------|-------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------|
| Outstanding at January 1, 2008 | 2,656                    | \$ 27.91                                  |                                                                     |                                                     |
| Granted                        | 40                       | 23.78                                     |                                                                     |                                                     |
| Exercised                      | (26)                     | 19.69                                     |                                                                     |                                                     |

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|                                                    |       |    |       |     |    |       |
|----------------------------------------------------|-------|----|-------|-----|----|-------|
| Forfeited                                          | (22)  |    | 33.08 |     |    |       |
| Outstanding at March 31, 2008                      | 2,648 | \$ | 27.89 | 3.2 | \$ | 8,766 |
| Outstanding and expected to vest at March 31, 2008 | 2,633 | \$ | 27.48 | 3.1 | \$ | 8,630 |
| Exercisable at March 31, 2008                      | 2,205 | \$ | 26.14 | 2.9 | \$ | 8,633 |

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\* The intrinsic value represents the amount by which the fair market value of the underlying common stock exceeds the exercise price of the option, using the closing price per share of \$27.18 on March 31, 2008.

The total intrinsic value of options exercised during the three months ended March 31, 2008 and 2007, was \$0.2 million and \$1.7 million, respectively.

A summary of the status of unvested options as of March 31, 2008, and changes during the three months ended March 31, 2008, are presented below:

| <b>Unvested Options</b>     | <b>Shares<br/>(in thousands)</b> | <b>Weighted-<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|-----------------------------|----------------------------------|------------------------------------------------------------|
| Unvested at January 1, 2008 | 543                              | \$ 12.34                                                   |
| Granted                     | 40                               | 6.16                                                       |
| Vested                      | (136)                            | 11.18                                                      |
| Forfeited                   | (4)                              | 13.24                                                      |
| Unvested at March 31, 2008  | 443                              | \$ 12.13                                                   |

As of March 31, 2008, \$4.8 million of total unrecognized compensation cost was related to unvested share-based compensation arrangements granted under the 1994 Plan. This cost is expected to be recognized over a weighted-average period of 1.81 years. Options granted under the 1995 Plan are fully vested and are expensed on the date of grant.

## 9. Segment Information

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

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

| <b>(in thousands)</b>                | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------------|-----------------------------------------|-------------|
|                                      | <b>2008</b>                             | <b>2007</b> |
| <i>Net Sales</i>                     |                                         |             |
| Connector products                   | \$ 154,168                              | \$ 179,470  |
| Venting products                     | 13,488                                  | 13,685      |
| Total                                | \$ 167,656                              | \$ 193,155  |
| <i>Income (Loss) from Operations</i> |                                         |             |
| Connector products                   | \$ 16,519                               | \$ 29,013   |
| Venting products                     | (2,847)                                 | (1,943)     |
| Administrative and all other         | (198)                                   | (500)       |
| Total                                | \$ 13,474                               | \$ 26,570   |

|                     | <b>At March 31,</b> |             | <b>At<br/>December 31,</b> |
|---------------------|---------------------|-------------|----------------------------|
|                     | <b>2008</b>         | <b>2007</b> | <b>2007</b>                |
| <i>Total Assets</i> |                     |             |                            |
| Connector products  | \$ 573,651          | \$ 538,432  | \$ 575,707                 |
| Venting products    | 73,418              | 75,195      | 78,541                     |

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|                              |    |         |    |         |    |         |
|------------------------------|----|---------|----|---------|----|---------|
| Administrative and all other |    | 176,358 |    | 162,729 |    | 163,431 |
| Total                        | \$ | 823,427 | \$ | 776,356 | \$ | 817,679 |

Cash collected by the Company's subsidiaries is routinely transferred into the Company's cash management accounts and, therefore, has been included in the total assets of Administrative and all other. Cash and cash equivalent

balances in the Administrative and all other segment were \$145.6 million, \$140.2 million, and \$159.8 million, as of March 31, 2008 and 2007, and December 31, 2007, respectively.

10. Subsequent Events

In April 2008, the Company's Board of Directors declared a cash dividend of \$0.10 per share, estimated to total \$4.9 million, to be paid on July 24, 2008, to stockholders of record on July 3, 2008.

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

In April 2008, the Company sold its vacant factory in McKinney, Texas, for total proceeds of \$1.8 million.

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

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

The following is a discussion and analysis of the consolidated financial condition and results of operations for the Company for the three months ended March 31, 2008 and 2007. The following should be read in conjunction with the interim Condensed Consolidated Financial Statements and related Notes appearing elsewhere herein.

Results of Operations for the Three Months Ended March 31, 2008, Compared with the Three Months Ended March 31, 2007

Net sales decreased 13.2% to \$167.7 million in the first quarter of 2008 as compared to net sales of \$193.2 million for the first quarter of 2007. Net income decreased 51.7% to \$8.4 million for the first quarter of 2008 as compared to net income of \$17.3 million for the first quarter of 2007. Diluted net income per common share was \$0.17 for the first quarter of 2008 as compared to \$0.35 for the first quarter of 2007.

In the first quarter of 2008, sales declined throughout the United States, with the exception of the northeastern region of the country. California and the western states had the largest decrease in sales. Sales during the quarter in Canada increased significantly while sales in Europe, as a whole, were up slightly. Simpson Strong-Tie's first quarter sales decreased 14.1% from the same quarter last year, while Simpson Dura-Vent's sales decreased 1.4%. Simpson Strong-Tie's sales to contractor distributors had the largest percentage decrease and sales to home centers and dealer distributors also decreased. Sales decreased across all of Simpson Strong-Tie's major product lines, particularly those used in new home construction. Sales of the Swan Secure product line, acquired in July 2007, accounted for approximately 5% of Simpson Strong-Tie's first quarter sales. Sales of Simpson Dura-Vent's pellet vent, chimney and Direct-Vent products increased while sales of its gas vent product line decreased as a result of several factors, including the decline in new home construction.

Income from operations decreased 49.3% from \$26.6 million in the first quarter of 2007 to \$13.5 million in the first quarter of 2008. Gross margins decreased from 37.1% in the first quarter of 2007 to 33.6% in the first quarter of 2008. The decrease in gross margins was primarily due to higher fixed overhead costs as a percentage of total costs, resulting primarily from the lower sales volume. The steel market continues to be dynamic with a high degree of uncertainty. Since December 31, 2007, total inventories have increased 4.4%. In 2008, the Company has experienced steel price increases and is anticipating further increases in steel prices. The Company will increase its prices in June 2008 to partially off set rising steel prices. If steel prices continue to increase and the Company is not able to increase its prices sufficiently, the Company's margins could further deteriorate.

Research and development and engineering expenses decreased 3.0% from \$5.3 million in the first quarter of 2007 to \$5.1 million in the first quarter of 2008. This decrease was primarily due to a decrease in cash profit sharing of \$0.4 million partially offset by an increase in other personnel costs of \$0.2 million. Selling expenses increased 9.1% from \$18.2 million in the first quarter of 2007 to \$19.8 million in the first quarter of 2008. The increase was driven primarily by a \$1.5 million increase in expenses associated with sales and marketing personnel. General and administrative expenses decreased 17.4% from \$21.6 million in the first quarter of 2007 to \$17.9 million in the first quarter of 2008. The major components of the decrease were decreases in cash profit sharing of \$4.0 million, resulting from decreased operating profit, a decrease in bad debt expense of \$1.0 million and a decrease in professional service fees of \$0.6 million. This decrease was partly offset by increases in personnel costs of \$1.1 million and an increase in amortization of intangible assets of \$0.6 million, both of which increased primarily as a result of the acquisition of Swan Secure Products, Inc. in July 2007. The effective tax rate was 42.8% in the first quarter of 2008, up from 38.1% in the first quarter of 2007. The increase in the effective tax rate was caused by many factors, including a decrease in tax-exempt interest income, losses in certain foreign operations where the Company did not record a tax benefit and the expiration of the federal research and development tax credit provision in 2008.

**Connector Products**   *Simpson Strong-Tie (SST)*

Simpson Strong-Tie's income from operations decreased 43.1% from \$29.0 million in the first quarter of 2007 to \$16.5 million in the first quarter of 2008.

*Net Sales*

In the first quarter of 2008, Simpson Strong-Tie's net sales decreased 14.1% to \$154.2 million from \$179.5 million in the first quarter of 2007. SST accounted for 92.0% of the Company's total net sales in the first quarter of 2008, a decrease from 92.9% in the first quarter of 2007. The decrease in net sales at Simpson Strong-Tie resulted from a decrease in sales volume while average prices were flat as compared to the first quarter of 2007. In the first quarter of 2008, Simpson Strong-Tie's sales declined throughout the United States, with the exception of the northeastern region of the country. California and the western states had the largest decrease in sales. Simpson Strong-Tie's sales during the quarter in Canada increased significantly while sales in Europe, as a whole, were up slightly. Simpson Strong-Tie's sales to contractor distributors had the largest percentage decrease and sales to home centers and dealer distributors also decreased. Sales decreased across all of Simpson Strong-Tie's major product lines, particularly those used in new home construction. Sales of the Swan Secure product line, acquired in July 2007, accounted for approximately 5% of Simpson Strong-Tie's first quarter sales.

*Gross Profit*

Simpson Strong-Tie's gross profit decreased 20.8% to \$56.0 million in the first quarter of 2008 from \$70.7 million in the first quarter of 2007. As a percentage of net sales, gross profit decreased to 36.3% in the first quarter of 2008 from 39.4% in the first quarter of 2007. This decrease was primarily due to higher manufacturing costs, including material costs, and to higher fixed overhead costs as a percentage of sales as a result of the lower sales volume.

*Selling Expense*

Simpson Strong-Tie's selling expense increased 10.6% to \$18.1 million in the first quarter of 2008 from \$16.4 million in the first quarter of 2007. The increase was driven primarily by a \$1.5 million increase in expenses associated with sales and marketing personnel and an increase in professional services expenses of \$0.4 million.

*General and Administrative Expense*

Simpson Strong-Tie's general and administrative expense decreased 18.6% to \$16.5 million in the first quarter of 2008 from \$20.3 million in the first quarter of 2007. The decrease was primarily due to reduced cash profit sharing expenses included in administrative expenses totaling \$4.0 million, a decrease in bad debt expense of \$1.1 million and a decrease in professional fees of \$0.3 million. These decreases were partly offset by increases in expenses associated with administrative personnel of \$0.8 million and an increase in amortization of intangible assets of \$0.6 million, which included incremental expenses associated with the acquisition of Swan Secure in July 2007.

*European Operations*

For its European operations, Simpson Strong-Tie recorded an operating loss of \$0.8 million in the first quarter of 2008 compared to operating income of \$0.8 million in the first quarter of 2007.

***Venting Products    Simpson Dura-Vent (SDV)***

Simpson Dura-Vent's loss from operations increased to \$2.9 million the first quarter of 2008 from \$1.9 million in the first quarter of 2007.

*Net Sales*

In the first quarter of 2008, Simpson Dura-Vent's net sales decreased 1.4% to \$13.5 million as compared to net sales of \$13.7 million in the first quarter of 2007. SDV accounted for 8.0% of the Company's total net sales in the first quarter of 2008, an increase from 7.0% in the first quarter of 2007. The decrease in net sales at SDV resulted from a decrease in sales volume, partly off set by price increases that averaged 1.3%. In the first quarter of 2008, Simpson

Dura-Vent sales increased in the northeastern and midwestern regions of the United States while sales in California were down sharply. Sales to fireplace distributors were up sharply in the first quarter of 2008 as compared to the first quarter of 2007, but were partly off set by substantial decreases in sales to HVAC (heating, ventilating and air conditioning) distributors. Sales of Simpson Dura-Vent's pellet vent, chimney and Direct-Vent products increased while sales of its gas vent product line decreased as a result of several factors, including the decline in new home construction.

#### *Gross Profit*

Simpson Dura-Vent's gross profit decreased 88.2% to \$0.1 million in the first quarter of 2008 from \$1.0 million in the first quarter of 2007. As a percentage of net sales, gross profit decreased to 0.9% in the first quarter of 2008 from 7.1% in the first quarter of 2007. This decrease was primarily due to higher manufacturing costs and higher fixed overhead costs as a percentage of sales.

#### *Administrative and All Other (Company)*

#### *Interest Income and Expense*

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

#### Critical Accounting Policies and Estimates

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

#### Recently Issued Accounting Standards

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, except as amended by FSP FAS 157-1 and FSP FAS 157-2, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The Company has not yet adopted the provisions of SFAS No. 141(R), Business Combinations and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements and an amendment of Accounting Research Bulletin No. 51. See Note 1 to the Company's Condensed Consolidated Financial Statements.

Liquidity and Sources of Capital



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As of March 31, 2008, working capital was \$448.3 million as compared to \$402.6 million at March 31, 2007, and \$438.5 million at December 31, 2007. The increase in working capital from December 31, 2007, was primarily due to increases in net trade accounts receivable of \$19.3 million and inventories of \$9.5 million and decreases in accrued liabilities and accrued profit sharing trust contributions of \$8.8 million and \$6.2 million, respectively. Net trade accounts receivable increased 21.8% from December 31, 2007, while inventories increased 4.4% from December 31, 2007. The increase in net trade accounts receivable was the result of increased sales in the latter part of the first quarter of 2008 as compared to the latter part of the fourth quarter of 2007. Offsetting this increase in working capital were decreases in cash and cash equivalents of \$21.8 million and increases in trade accounts payable, line of credit borrowings, and income taxes payable of \$7.5 million, \$2.4 million, and \$1.6 million, respectively. 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 \$8.4 million and noncash expenses, primarily depreciation, amortization and stock-based compensation charges totaling \$8.4 million, resulted in net cash used by operating

activities of \$16.6 million. As of March 31, 2008, the Company had unused credit facilities available of \$203.2 million.

The Company used \$2.8 million in its investing activities, primarily for machinery and equipment for various facilities throughout the United States and in Asia. The Company estimates its capital spending will total \$21.2 million for 2008.

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

The Company's vacant facility in San Leandro, California, has been classified as an asset held for sale. In September 2007, an environmental analysis of the San Leandro property indicated that it had contamination related to spilled fuel that would require an estimated \$0.3 million to remediate. The clean-up is expected to be completed in late 2008. The Company expects to sell the property after the remediation is completed.

In April 2008, the Company sold its vacant factory in McKinney, Texas, for total proceeds of \$1.8 million. As of March 31, 2008, this facility was classified as an asset held for sale.

The Company's financing activities used net cash of \$2.1 million. Uses of cash for financing activities were for the payment of cash dividends in the amount of \$4.9 million. Cash provided by financing activities were primarily from borrowings on the Company's credit lines of its European subsidiaries of approximately \$2.2 million and the issuance of the Company's common stock through the exercise of stock options totaling \$0.5 million. In April 2008, the Company's Board of Directors declared a cash dividend of \$0.10 per share, estimated to total of \$4.9 million, to be paid on July 24, 2008, to stockholders of record on July 3, 2008.

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 over the next 12 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 general inflation rates have remained relatively low. In 2008, the Company is anticipating further increases in steel prices. If steel prices continue to increase and the Company is not able to increase its prices sufficiently, the Company's margins could further deteriorate.

### **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 where the Company has operations, the change in net income would not be material to the Company's operations taken as a whole. The translation adjustment

resulted in an increase in accumulated other comprehensive income of \$1.6 million for the three months ended March 31, 2008, primarily due to the effect of the weakening of the United States dollar in relation to most of the European currencies, offset by the effect of the strengthening of the United States dollar in relation to the Canadian dollar and the British pound, during the first three months of 2008.

**Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures.* As of March 31, 2008, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was performed under the supervision and with the participation of the Company's management, including the chief executive officer ( CEO ) and the chief financial

officer ( CFO ). Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective as of that date.

*Changes in Internal Control over Financial Reporting.* During the three months ended March 31, 2008, the Company made changes to its internal control over financial reporting (as defined in Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. Those changes were the installation of a general ledger module of an integrated accounting software system in replacement of the Company's legacy system. The Company is also in the process of implementing an integrated accounting software system to be used in its China operations.

PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The resolution of claims and litigation is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows or results of operations.

**Item 1A. Risk Factors**

We are affected by risks specific to us, as well as risks that affect all businesses operating in global markets. Some of the significant factors that could materially adversely affect our business, financial condition and operating results appear in Item 1A of our most recent Annual Report on Form 10-K (available at [www.simpsonmfg.com/docs/10K-2007.pdf](http://www.simpsonmfg.com/docs/10K-2007.pdf) or [www.sec.gov](http://www.sec.gov)).

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

In December 2007, the Board of Directors authorized the Company to repurchase up to \$50.0 million of the Company's common stock. This replaced the \$50.0 million repurchase authorization from February 2007. The authorization will remain in effect through the end of 2008. There were no repurchases of the Company's common stock in the first quarter of 2008.

**Item 6. Exhibits.**

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

- |     |                                                                                                                                                                                                                                                                                                                |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Certificate of Incorporation of Simpson Manufacturing Co., Inc., as amended, is incorporated by reference to Exhibit 3.1 of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.                                                                                                        |
| 3.2 | Bylaws of Simpson Manufacturing Co., Inc. are incorporated by reference to Exhibit 3.2 of its Registration Statement on Form 8-A dated August 4, 1999.                                                                                                                                                         |
| 4.1 | Rights Agreement dated as of July 30, 1999 between Simpson Manufacturing Co., Inc. and BankBoston, N.A., which includes as Exhibit B the form of Rights Certificate, is incorporated by reference to Exhibit 4.1 of Simpson Manufacturing Co., Inc.'s Registration Statement on Form 8-A dated August 4, 1999. |
| 4.2 |                                                                                                                                                                                                                                                                                                                |

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

- 4.3 Simpson Manufacturing Co., Inc. 1994 Stock Option Plan, as amended through July 29, 2002, is incorporated by reference to Exhibit 4.1 of Simpson Manufacturing Co., Inc. s Registration Statement on Form S-8 dated July 30, 2002.
- 4.4 Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan, as amended through July 29, 2002, is incorporated by reference to Exhibit 4.1 of Simpson Manufacturing Co., Inc. s Registration Statement on Form S-8 dated July 30, 2002.
- 10.1 Credit Agreement dated as of October 10, 2007, among Simpson Manufacturing Co., Inc. as Borrower, the Lenders party thereto, Wells Fargo Bank as Agent, and Simpson Dura-Vent Company, Inc., Simpson Strong Tie Company Inc., and Simpson Strong-Tie International, Inc. as Guarantors, is incorporated by reference to Exhibit 10.1 of Simpson Manufacturing Co., Inc. s Current Report on Form 8-K dated October 15, 2007.

- 10.2 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.
- 10.3 Stock Purchase Agreement dated as of July 23, 2007, between Hobart K. Swan and Reliance Trust Company, solely in its capacity as independent trustee of the Swan Secure Products, Inc. Employee Stock Ownership Plan and Trust, on the one hand, and Simpson Strong-Tie Company Inc. and Simpson Manufacturing Co., Inc., on the other hand, is incorporated by reference to Exhibit 10.1 of Simpson Manufacturing Co., Inc.'s Current Report on Form 8-K dated July 24, 2007.
- 31 Rule 13a-14(a)/15d-14(a) Certifications are filed herewith.
- 32 Section 1350 Certifications are filed herewith.
- 99.1 Simpson Manufacturing Co., Inc. 1994 Employee Stock Bonus Plan, as amended through November 18, 2004, is incorporated by reference to Exhibit 99.1 of Simpson Manufacturing Co., Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.

**SIGNATURES**

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

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

**DATE:** May 9, 2008

By /s/Michael J. Herbert

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