

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:

**March 31, 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)

**Delaware**

(State or other jurisdiction of incorporation  
or organization)

**94-3196943**

(I.R.S. Employer  
Identification No.)

**4120 Dublin Boulevard, Suite 400, Dublin, CA 94568**

(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

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to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (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, 2004:

**24,276,394**

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**

	2004	March 31, (Unaudited)	2003	December 31, 2003
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 70,446,242		\$ 89,976,762	\$ 95,135,885
Short-term investments	45,456,581		22,105,675	44,737,867
Trade accounts receivable, net	106,004,468		71,803,708	66,073,296
Inventories	115,290,897		99,634,575	106,202,713
Deferred income taxes	7,624,878		7,456,455	7,821,198
Other current assets	4,248,835		4,892,069	4,293,705
Total current assets	349,071,901		295,869,244	324,264,664
Property, plant and equipment, net	108,477,981		101,529,045	107,226,319
Goodwill	23,444,265		14,754,292	23,655,860
Other noncurrent assets	7,030,061		5,348,950	6,545,547
Total assets	\$ 488,024,208		\$ 417,501,531	\$ 461,692,390
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current liabilities				
Notes payable and current portion of long-term debt	\$ 2,666,161		\$ 2,631,986	\$ 1,113,657
Trade accounts payable	20,392,693		18,974,017	22,567,291
Accrued liabilities	17,902,826		11,902,102	15,181,487
Income taxes payable	8,412,050		5,633,884	
Accrued profit sharing trust contributions	2,082,057		1,587,011	6,021,136
Accrued cash profit sharing and commissions	10,583,238		6,721,002	7,459,428
Accrued workers compensation	2,473,764		1,880,764	2,423,764
Total current liabilities	64,512,789		49,330,766	54,766,763
Long-term debt, net of current portion	5,199,434		5,278,586	5,177,936
Other long-term liabilities	1,112,856		675,769	1,443,440
Total liabilities	70,825,079		55,285,121	61,388,139
Commitments and contingencies (Notes 6 and 7)				
Stockholders equity				
Common stock	36,573,509		52,502,790	34,405,552
Retained earnings	373,437,866		308,378,713	357,916,036
Accumulated other comprehensive income	7,187,754		1,334,907	7,982,663
Total stockholders equity	417,199,129		362,216,410	400,304,251
Total liabilities and stockholders equity	\$ 488,024,208		\$ 417,501,531	\$ 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 March 31,	
	2004	2003
Net sales	\$ 159,915,734	\$ 116,456,180
Cost of sales	95,337,098	70,845,600
Gross profit	64,578,636	45,610,580
Operating expenses:		
Selling	13,045,528	11,526,709
General and administrative	22,225,820	15,598,725
	35,271,348	27,125,434
Income from operations	29,307,288	18,485,146
Interest income, net	272,847	129,950
Income before income taxes	29,580,135	18,615,096
Provision for income taxes	11,630,665	7,590,194
Net income	\$ 17,949,470	\$ 11,024,902
Net income per common share		
Basic	\$ 0.74	\$ 0.45
Diluted	\$ 0.73	\$ 0.44
Cash dividends declared per common share	\$ 0.10	\$
Number of shares outstanding		
Basic	24,272,272	24,581,348
Diluted	24,664,270	24,902,398

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

	Three Months Ended March 31,	
	2004	2003
Net income	\$ 17,949,470	\$ 11,024,902
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(796,276)	1,039,283
Change in net unrealized gains on available-for-sale investments	1,367	(12,676)

Comprehensive income	\$	17,154,561	\$	12,051,509
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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)**

	Three Months Ended March 31,	
	2004	2003
<b>Cash flows from operating activities</b>		
Net income	\$ 17,949,470	\$ 11,024,902
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of capital equipment	(40,997)	(36,326)
Depreciation and amortization	4,717,031	3,966,453
Deferred income taxes and long-term liabilities	59,098	(669,914)
Noncash compensation related to stock plans	1,506,133	575,147
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable, net	(40,007,624)	(16,384,384)
Inventories	(9,325,265)	(6,024,822)
Trade accounts payable	(2,267,281)	4,535,400
Income taxes payable	10,145,487	7,220,682
Accrued profit sharing trust contributions	(3,931,734)	(3,562,218)
Accrued cash profit sharing and commissions	3,125,651	549,212
Other current assets	(2,457,741)	(2,811,729)
Accrued liabilities	316,074	(1,408,331)
Accrued workers compensation	50,000	195,000
Other noncurrent assets	26,543	(70,715)
Total adjustments	(38,084,625)	(13,926,545)
Net cash used in operating activities	(20,135,155)	(2,901,643)
<b>Cash flows from investing activities</b>		
Capital expenditures	(6,151,311)	(7,600,876)
Asset acquisitions, net of cash acquired		(65,684)
Proceeds from sale of capital equipment	40,541	39,705
Purchases of available-for-sale investments	(26,217,348)	(8,443,908)
Sales of available-for-sale investments	25,500,000	4,009,168
Net cash used in investing activities	(6,828,118)	(12,061,595)
<b>Cash flows from financing activities</b>		
Line of credit borrowings	1,874,190	1,323,368
Repayment of debt and line of credit borrowings	(125,498)	(318,230)
Issuance of common stock	684,455	482,283
Net cash provided by financing activities	2,433,147	1,487,421
Effect of exchange rate changes on cash	(159,517)	134,523
Net decrease in cash and cash equivalents	(24,689,643)	(13,341,294)
Cash and cash equivalents at beginning of period	95,135,885	103,318,056
Cash and cash equivalents at end of period	\$ 70,446,242	\$ 89,976,762

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 as title to products is transferred to customers or services are rendered, net of applicable provision for discounts, returns and allowances whether actual or estimated based on the Company's experience.

*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 March 31, 2004			Three Months Ended March 31, 2003		
	Income	Shares	Per Share	Income	Shares	Per Share
<b>Basic EPS</b>						
Income available to common stockholders	\$ 17,949,470	24,272,272	\$ 0.74	\$ 11,024,902	24,581,348	0.45
<b>Effect of Dilutive Securities</b>						
Stock options		391,998	(0.01)		321,050	(0.01)
<b>Diluted EPS</b>						
Income available to common stockholders	\$ 17,949,470	24,664,270	\$ 0.73	\$ 11,024,902	24,902,398	\$ 0.44

*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 March 31, 2004 and 2003, the Company has recognized an after-tax expense of approximately \$815,000 and \$250,000, 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:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net income, as reported	\$ 17,949,470	\$ 11,024,902
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
Pro forma	\$ 17,937,018	\$ 10,931,628
<b>Earnings per share</b>		
Basic, as reported	\$ 0.74	\$ 0.45
Basic, pro forma	0.74	0.44
Diluted, as reported	0.73	0.44
Diluted, pro forma	0.73	0.44

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:

	At March 31,		At December 31,	
	2004	2003	2003	2003
Trade accounts receivable	\$ 108,936,659	\$ 74,289,038	\$ 68,717,357	
Allowance for doubtful accounts	(1,573,209)	(1,881,085)	(1,889,210)	
Allowance for sales discounts	(1,358,982)	(604,245)	(754,851)	
	\$ 106,004,468	\$ 71,803,708	\$ 66,073,296	

## 3. Inventories

The components of inventories consist of the following:

	At March 31,		At December 31,	
	2004	2003	2003	2003
Raw materials	\$ 47,085,114	\$ 33,709,295	\$ 38,822,274	
In-process products	15,109,278	14,510,596	15,132,723	
Finished products	53,096,505	51,414,684	52,247,716	
	\$ 115,290,897	\$ 99,634,575	\$ 106,202,713	

## 4. Property, Plant and Equipment, net

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

	At March 31,		At December 31,	
	2004	2003	2003	2003
Land	\$ 13,130,093	\$ 13,116,439	\$ 13,133,848	
Buildings and site improvements	63,761,809	54,377,163	64,054,606	
Leasehold improvements	5,861,256	5,838,193	5,833,533	
Machinery and equipment	128,187,553	113,703,323	125,987,726	
	210,940,711	187,035,118	209,009,713	
Less accumulated depreciation and amortization	(109,787,233)	(97,068,370)	(105,397,774)	
	101,153,478	89,966,748	103,611,939	
Capital projects in progress	7,324,503	11,562,297	3,614,380	
	\$ 108,477,981	\$ 101,529,045	\$ 107,226,319	

## 5. Investments

As of March 31, 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.

*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 March 31, 2004 and 2003, the Company's investments were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>At March 31, 2004</b>				
Debt investments				
Municipal bonds	\$ 45,451,236	\$ 34,630	\$ 29,285	\$ 45,456,581
Commercial paper	5,106,910			5,106,910
Total debt investments	50,558,146	34,630	29,285	50,563,491
Money market instruments and funds	19,997			19,997
	\$ 50,578,143	\$ 34,630	\$ 29,285	\$ 50,583,488
<b>At March 31, 2003</b>				
Debt investments				
Municipal bonds	\$ 19,145,206	\$ 21,435	\$	\$ 19,166,641
Commercial paper	6,016,316			6,016,316
Total debt investments	25,161,522	21,435		25,182,957
Money market instruments and funds	37,904			37,904
	\$ 25,199,426	\$ 21,435	\$	\$ 25,220,861

Of the total estimated fair value of debt securities, \$5,126,907 and \$3,115,186 was classified as cash equivalents as of March 31, 2004 and 2003, respectively, and \$45,456,581 and \$22,105,675 was classified as short-term investments as of March 31, 2004 and 2003, respectively.

As of March 31, 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	\$ 9,823,782	\$ 9,802,998
Amounts maturing in 1 - 5 years	13,801,504	13,819,659
Amounts maturing in 5 - 10 years	3,532,005	3,536,550

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Amounts maturing after 10 years	18,293,945	18,297,374
	\$ 45,451,236	\$ 45,456,581

During the three months ended March 31, 2003, there was a loss of \$1,368 related to the sale of available-for-sale investments.



## 6. Debt

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

	Available Credit at March 31, 2004	Debt Outstanding		
		at March 31, 2004	2003	at December 31, 2003
Revolving line of credit, interest at bank's reference rate less 0.50% (at March 31, 2004, the bank's reference rate less 0.50% was 3.50%), expires November 2004	\$ 12,941,882	\$		\$
Revolving term commitment, interest at bank's prime rate less 0.50% (at March 31, 2004, the bank's prime rate less 0.50% was 3.50%), expires June 2005	9,200,000			
Revolving line of credit, interest at the bank's base rate plus 2% (at March 31, 2004, the bank's base rate plus 2% was 6.0%), expires September 2004	456,446			
Revolving line of credit, interest at 4.50%, expires June 2004	2,699,686	1,846,227		
Term loan, interest at LIBOR plus 1.375% (at March 31, 2004, LIBOR plus 1.375% was 2.495%), expires May 2008		1,350,000	1,650,000	1,350,000
Term loans, interest rates between 4.00% and 6.23%, expirations between 2006 and 2018		4,669,368	6,260,572	4,941,593
Standby letter of credit facilities	858,118			
	26,156,132	7,865,595	7,910,572	6,291,593
Less notes payable and current portion of long-term debt		(2,666,161)	(2,631,986)	(1,113,657)
Long-term debt, net of current portion		\$ 5,199,434	\$ 5,278,586	\$ 5,177,936
Standby letters of credit issued and outstanding	(858,118)			
	\$ 25,298,014			

As of March 31, 2004, the Company had one outstanding standby letter of credit in the amount of \$858,118 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 pressure-treating 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	
	2004	March 31,
		2003
<i>Net Sales</i>		
Connector products	\$ 142,510,000	\$ 100,388,000
Venting products	17,406,000	