SIMPSON MANUFACTURING CO INC /CA/
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(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, 2007

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: 0-23804

Simpson Manufacturing Co., Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3196943**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5956 W. Las Positas Blvd., Pleasanton, CA 94588
(Address of principal executive offices)

(Registrant s telephone number, including area code): **(925) 560-9000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

The number of shares of the Registrant s common stock outstanding as of March 31, 2007: **48,409,475**

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, unaudited)

	March 31, 2007	2006	December 31, 2006
ASSETS			
Current assets			
Cash and cash equivalents	$ 149,310	$ 129,575	$ 148,299
Trade accounts receivable, net	126,577	125,041	95,991
Inventories	208,797	192,741	217,608
Deferred income taxes	11,042	10,439	11,216
Other current assets	8,003	7,336	6,224
Total current assets	503,729	465,132	479,338
Property, plant and equipment, net	206,442	174,039	197,180
Goodwill	44,617	42,919	44,337
Equity method investment		100	33
Other noncurrent assets	21,568	15,842	14,446
Total assets	$ 776,356	$ 698,032	$ 735,334
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Line of credit and current portion of long-term debt	$ 2,691	$ 2,966	$ 327
Trade accounts payable	35,863	40,167	22,909
Accrued liabilities	34,239	28,979	36,874
Income taxes payable	5,994	11,195	
Accrued profit sharing trust contributions	10,309	9,236	8,616
Accrued cash profit sharing and commissions	8,345	12,944	7,817
Accrued workers compensation	3,712	3,312	3,712
Total current liabilities	101,153	108,799	80,255
Long-term debt, net of current portion	337	643	338
Other long-term liabilities	8,775	1,422	1,866
Total liabilities	110,265	110,864	82,459
Commitments and contingencies (Note 7)			
Minority interest in consolidated variable interest entities		2,128	
Stockholders equity			
Common stock, at par value	484	484	484
Additional paid-in capital	118,590	99,342	114,535
Retained earnings	534,597	477,757	526,362
Accumulated other comprehensive income	12,420	7,457	11,494
Total stockholders equity	666,091	585,040	652,875
Total liabilities and stockholders equity	$ 776,356	$ 698,032	$ 735,334

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

Simpson Manufacturing Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands except per-share amounts, unaudited)

	Three Months Ended March 31, 2007	2006
Net sales	$ 193,155	$ 215,658
Cost of sales	121,533	129,740
Gross profit	71,622	85,918
Operating expenses:		
Research and development and other engineering	5,260	5,058
Selling	18,154	17,458
General and administrative	21,638	23,114
	45,052	45,630
Income from operations	26,570	40,288
Loss on equity method investment, before tax	(33)	(143)
Interest income, net	1,374	887
Income before income taxes	27,911	41,032
Provision for income taxes	10,621	15,788
Minority interest		91
Net income	$ 17,290	$ 25,153
Net income per common share		
Basic	$ 0.36	$ 0.52
Diluted	$ 0.35	$ 0.51
Cash dividends declared per common share	$ 0.10	$ 0.08
Number of shares outstanding		
Basic	48,414	48,378
Diluted	48,886	49,134

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

Simpson Manufacturing Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders Equity
for the three months ended March 31, 2006 and 2007 and the nine months ended December 31, 2006

(In thousands except per-share amounts, unaudited)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2006	48,322	$ 483	$ 94,398	$ 456,474	$ 6,774	$	$ 558,129
Comprehensive income:							
Net income				25,153			25,153
Other comprehensive income:							
Translation adjustment, net of tax of $16					683		683
Comprehensive income							25,836
Options exercised	116	1	1,751				1,752
Stock compensation			2,018				2,018
Tax benefit of options exercised			946				946
Cash dividends declared on Common stock ($0.08 per share)				(3,870)			(3,870)
Common stock issued at $36.35 per share	6		229				229
Balance, March 31, 2006	48,444	484	99,342	477,757	7,457		585,040
Comprehensive income:							
Net income				77,343			77,343
Other comprehensive income:							
Translation adjustment, net of tax of $248					4,037		4,037
Comprehensive income							81,380
Options exercised	468	5	7,190				7,195
Stock compensation			5,600				5,600
Tax benefit of options exercised			2,403				2,403
Cash dividends declared on common stock ($0.24 per share)				(11,577)			(11,577)
Repurchase of common stock	(500)					(17,166)	(17,166)
Retirement of common stock		(5)		(17,161)		17,166	
Balance, December 31, 2006	48,412	484	114,535	526,362	11,494		652,875
Cumulative effect due to adoption of FIN 48				(16)			(16)
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 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
Repurchase of common stock	(123)					(4,191)	(4,191)
Retirement of common stock		(1)		(4,190)		4,191	
Cash dividends declared on Common stock ($0.10 per share)				(4,849)			(4,849)
Common stock issued at $31.65 per share	10		307				307
Balance, March 31, 2007	48,409	$ 484	$ 118,590	$ 534,597	$ 12,420	$	$ 666,091

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 Ended March 31, 2007	2006
Cash flows from operating activities		
Net income	$ 17,290	$ 25,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets	(6)	(2)
Depreciation and amortization	7,078	6,495
Deferred income taxes	(507)	(961)
Noncash compensation related to stock plans	1,677	1,840
Loss in equity method investment	33	143
Excess tax benefit of options exercised	(431)	(894)
Provision for (recovery of) doubtful accounts	271	(80)
Minority interest		91
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(30,629)	(23,090)
Inventories	9,069	(10,745)
Trade accounts payable	11,396	6,739
Income taxes payable	8,504	14,816
Accrued profit sharing trust contributions	1,687	1,513
Accrued cash profit sharing and commissions	528	2,714
Other current assets	(3,471)	(3,527)
Accrued liabilities	(3,735)	(6,427)
Other long-term liabilities	(1,714)	(1,213)
Accrued workers compensation		50
Other noncurrent assets	1,737	27
Net cash provided by operating activities	18,777	12,642
Cash flows from investing activities		
Capital expenditures	(14,164)	(9,502)
Acquisition of minority interest		(4,990)
Proceeds from sale of capital assets	20	27
Asset acquisitions	(327)	
Net cash used in investing activities	(14,471)	(14,465)
Cash flows from financing activities		
Line of credit borrowings	2,347	696
Repayment of debt and line of credit borrowings	(2)	(530)
Repurchase of common stock	(4,191)	
Issuance of common stock	1,918	1,752
Excess tax benefit of options exercised	431	894
Dividends paid	(3,875)	(3,867)
Net cash used in financing activities	(3,372)	(1,055)
Effect of exchange rate changes on cash	77	1,250
Net increase (decrease) in cash and cash equivalents	1,011	(1,628)
Cash and cash equivalents at beginning of period	148,299	131,203
Cash and cash equivalents at end of period	$ 149,310	$ 129,575
Noncash activity during the period		
Noncash capital expenditures	$ 1,438	$ 3,749
Dividends declared but not paid	$ 4,849	$ 3,870
Issuance of Company s common stock for compensation	$ 307	$ 229

Noncash asset acquisition	$	608	$	

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

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Simpson Manufacturing Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

Principles of Consolidation

The consolidated financial statements include the accounts of Simpson Manufacturing Co., Inc. and its subsidiaries (the Company). Investments in 50% or less owned affiliates are generally accounted for using either cost or the equity method. The Company consolidates all variable interest entities (VIEs) where it is the primary beneficiary. There were no VIEs as of December 31, 2006, or March 31, 2007. 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 2006 Annual Report on Form 10-K (the 2006 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.

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.

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

(in thousands, except per-share amounts)	**Three Months Ended, March 31, 2007** Income	Shares	Per Share	**Three Months Ended, March 31, 2006** Income	Shares	Per Share
Basic EPS						
Income available to common stockholders	$ 17,290	48,414	$ 0.36	$ 25,153	48,378	$ 0.52
Effect of Dilutive Securities						
Stock options		472	(0.01)		756	(0.01)
Diluted EPS						
Income available to common stockholders	$ 17,290	48,886	$ 0.35	$ 25,153	49,134	$ 0.51

Anti-dilutive shares attributable to outstanding stock options were excluded from the calculation of diluted net income per share. For the three months ended March 31, 2007 and 2006, 1.1 million and 1.0 million shares subject to stock options were anti-dilutive, respectively.

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 February 2007 and January 2006 under the 1994 Plan equaled or exceeded the closing market price per share of the Company s Common Stock as reported by the New York Stock Exchange for the date when the Company first publicly announced its financial results for 2006 and 2005, respectively. 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 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, 2007 and 2006:

(in thousands)	**Three Months Ended March 31, 2007**	**2006**
Stock option expense recognized in operating expenses	$ 1,545	$ 1,776
Tax benefit of stock option expense in provision for income taxes	589	684
Stock option expense, net of tax	$ 956	$ 1,092
Fair value of shares vested	$ 1,468	$ 2,018
Proceeds to the Company from the exercise of stock options	$ 1,918	$ 1,752
Tax benefit from exercise of stock options	$ 363	$ 946

	At March 31, 2007	**2006**
Stock option cost capitalized in inventory	$ 188	$ 242

The amounts included in cost of sales, 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.

Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

As a result of the adoption of FIN 48, the Company recognized an adjustment to its January 1, 2007, opening retained earnings balance in the amount of $16 thousand.

At January 1, 2007, the Company had $7.5 million in unrecognized tax benefits, of which $1.8 million, if recognized, would favorably affect the effective tax rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense, which is a continuation of the Company s historical accounting policy. At January 1, 2007, the Company had accrued $1.0 million for the potential payment of interest, before income tax benefits.

There were no material changes to any of these amounts during the first quarter of 2007.

At January 1, 2007, the Company is subject to U.S. federal income tax examinations for the tax years 2003 through 2006. In addition, the Company is subject to state, local and foreign income tax examinations primarily for the tax years 2002 through 2006.

Presentation of Taxes Collected and Remitted to Governmental Authorities

During 2006, the Emerging Issues Task Force (EITF) issued EITF 06-3, How Taxes Collected and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). The Company presents taxes collected and remitted to governmental authorities on a net basis in the accompanying condensed consolidated statements of operations.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management has not yet determined the effect, if any, on the Company s financial statements for its fiscal year ending December 31, 2008, or its fiscal quarters within that year. SFAS No. 157 will be applied prospectively as of the beginning of the fiscal year in which it is initially applied.

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 at each subsequent reporting date, and recognize up-front costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for companies that have also elected to apply the provisions of SFAS No. 157, Fair Value Measurements. Companies are prohibited from retrospectively applying SFAS No. 159 unless they choose to early adopt both SFAS No. 157 and SFAS No. 159. SFAS No. 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). The Company has not elected to early adopt SFAS 157 and SFAS 159. Management has not yet determined the effect, if any, on the Company s financial statements for its fiscal year ending December 31, 2008.

2. Trade Accounts Receivable, net

Trade accounts receivable consist of the following:

(in thousands)	**At March 31, 2007**	**2006**	**At December 31, 2006**
Trade accounts receivable	$ 131,380	$ 129,610	$ 100,197
Allowance for doubtful accounts	(2,502)	(1,982)	(2,286)
Allowance for sales discounts and returns	(2,301)	(2,587)	(1,920)
	$ 126,577	$ 125,041	$ 95,991

3. Inventories

Inventories consist of the following:

(in thousands)	**At March 31, 2007**	**2006**	**At December 31, 2006**
Raw materials	$ 81,753	$ 65,131	$ 86,927
In-process products	20,778	26,778	24,209
Finished products	106,266	100,832	106,472
	$ 208,797	$ 192,741	$ 217,608

4. Property, Plant and Equipment, net

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

(in thousands)	**At March 31, 2007**	**2006**	**At December 31, 2006**
Land	$ 23,838	$ 21,589	$ 22,797
Buildings and site improvements	121,006	101,030	117,815
Leasehold improvements	2,832	5,977	2,805
Machinery and equipment	190,308	163,030	188,901
	337,984	291,626	332,318
Less accumulated depreciation and amortization	(161,607)	(141,252)	(155,167)
	176,377	150,374	177,151
Capital projects in progress	30,065	23,665	20,029
	$ 206,442	$ 174,039	$ 197,180

Included in property, plant and equipment at March 31, 2006, are land, buildings, building improvements and construction-in-progress of consolidated variable interest entities with a net book value of $4.0 million.

5. Investments

Equity Method Investment

The Company has a 35% equity interest in Keymark Enterprises, LLC (Keymark), for which it 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, nor does it intend to provide additional funding, to Keymark. Due to equity losses through March 31, 2007, the carrying amount of the Company s investment in Keymark has been written down to zero.

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6. Debt

Outstanding debt at March 31, 2007 and 2006, and December 31, 2006, and the available lines of credit at March 31, 2007, consisted of the following:

(dollar amounts in thousands)	**Available Credit at March 31, 2007**	**Debt Outstanding at March 31, 2007**	**2006**	**at December 31, 2006**
Revolving line of credit, interest at bank s reference rate less 0.50% (at March 31, 2007, the bank s reference rate less 0.50% was 7.75%), expires November 2008	$ 13,800	$	$	$
Revolving term commitment, interest at bank s prime rate less 0.50% (at March 31, 2007, the bank s prime rate less 0.50% was 7.75%), expires October 2007	9,200			
Revolving line of credit, interest at the bank s base rate plus 2% (at March 31, 2007, the bank s base rate plus 2% was 7.25%), expires October 2007	492			
Revolving lines of credit, interest rates between 4.4948% and 5.60%	1,886	2,363	705	
Term loan, interest at 7.70%, collateralized by real estate, repaid June 2006			1,932	
Term loan, interest at LIBOR plus 1.375% (at March 31, 2007, LIBOR plus 1.375% was 6.735%), matures May 2008		450	750	450
Term loans, interest rates between 4.00% and 5.00%, expirations between 2011 and 2018		215	222	215
	25,378	3,028	3,609	665
Less line of credit and current portion of long-term debt		(2,691)	(2,966)	(327)
Long-term debt, net of current portion		$ 337	$ 643	$ 338
Available credit	$ 25,378			

7. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2006 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.

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Corrosion, hydrogen enbrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations, 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 (see www.strongtie.com/info and www.duravent.com). Based on test results to date, the Company believes that, generally, if its products are appropriately selected and installed 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 U.S. 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 rate on the grant date.