SIMPSON MANUFACTURING CO INC /CA/
Form 10-K
February 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2012

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	**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**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01	**New York Stock Exchange, Inc.**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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

As of June 30, 2012, there were outstanding 48,318,180 shares of the registrant s common stock, par value $0.01, which is the only outstanding class of common or voting stock of the registrant. The aggregate market value of the shares of common stock held by nonaffiliates of the registrant (based on the closing price for the common stock on the New York Stock Exchange on June 30, 2012) was approximately $1,180,927,727. As of February 20, 2013, 48,543,831 shares of the registrant s common stock were outstanding.

Documents Incorporated by Reference

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held April 23, 2013, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2012.

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. Those factors include, but are not limited to: (i) general economic and construction business conditions; (ii) customer acceptance of the Company s products; (iii) relationships with key customers; (iv) materials and manufacturing costs; (v) the financial condition of customers, competitors and suppliers; (vi) technological developments; (vii) increased competition; (viii) changes in capital and credit markets; (ix) governmental and business conditions in countries where the Company s products are manufactured and sold; (x) changes in trade regulations; (xi) the effect of acquisition activity; (xii) changes in the Company s plans, strategies, objectives, expectations or intentions; and (xiii) other risks and uncertainties indicated from time to time in the Company s filings with the Securities and Exchange Commission. 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. See Item 1A Risk Factors.

PART I

Item 1. Business.

Background

Simpson Manufacturing Co., Inc., a Delaware corporation, (the Company), through its subsidiary, Simpson Strong-Tie Company Inc. (Simpson Strong-Tie or SST), designs, engineers and is a leading manufacturer of wood construction products, including connectors, truss plates, fastening systems, fasteners and pre-fabricated shearwalls, and concrete construction products used for concrete, masonry and steel, including adhesives, chemicals, mechanical anchors, carbide drill bits, powder actuated tools and fiber reinforcing materials. SST markets its products to the residential construction, light industrial and commercial construction, remodeling and do-it-yourself (DIY) markets. The Company believes that SST benefits from strong brand name recognition among architects and engineers who frequently specify in building plans the use of SST products. SST has continuously manufactured structural connectors since 1956.

On August 31, 2010, the Company sold substantially all of the assets and liabilities of Simpson Dura-Vent Company, Inc. (Simpson Dura-Vent) pursuant to an agreement dated June 30, 2010, with M&G Holding B.V. and M&G Dura-Vent, Inc. (M&G). The Company decided to sell the assets of Simpson Dura-Vent to focus on the development of its other businesses. Simpson Dura-Vent represented the Company s entire venting product line. The Company retained its real estate in Vacaville, California, which it now leases to M&G, and all Simpson Dura-Vent balances related to cash, employee-related liabilities and specified long-term liabilities.

After the sale of Simpson Dura-Vent, the Company reorganized into three operating segments consisting of the North American, European and Asia/Pacific segments. The North American segment includes operations primarily in the United States and Canada. The European segment includes operations primarily in France, the United Kingdom, Germany, Denmark, Ireland, Switzerland, Portugal and Poland. The Asia/Pacific segment includes operations primarily in China, Hong Kong, Australia, New Zealand and the Middle East. These segments are similar in several ways, including the products manufactured and distributed, the types of materials used, the production processes, the distribution channels and the product applications. See Note 14 to the Company s Consolidated Financial Statements for information regarding the assets and performance of each of the Company s operating segments. See Item 1A Risk Factors.

SST s wood construction products are typically made of steel and are used primarily to strengthen, support and connect wood joints in residential and commercial construction and DIY projects. SST s wood construction products enhance the safety and durability of the structures in which they are installed and can save time and labor costs. SST s wood construction products contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from commercial and residential building, to deck construction, to DIY projects. SST produces and markets over 12,000 standard and custom wood construction products.

SST s concrete construction products are composed of various materials including steel, chemicals and carbon fiber. They are used to strengthen, support and connect joints in residential and commercial construction and DIY projects used to repair, protect and strengthen concrete, brick or mortar structures. SST s concrete construction products enhance the safety and durability of the structures in which they are installed, can save time and labor costs, and

contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from industrial, commercial, infrastructure and residential structures, to DIY projects. SST produces and markets over 2,000 standard and custom concrete construction products.

SST emphasizes continuous new product development and often obtains patent protection for its new products. SST s products are marketed in all 50 states of the United States and in Europe, Canada, Asia, Australia, New Zealand, Mexico and several countries in Central and South America, Africa and the Middle East. SST s products are distributed to home centers, through wholesale distributors, to contractors, to dealers and to original equipment manufacturers (OEMs). SST operates manufacturing, warehouse or quality assurance facilities in California, Arizona, Texas, Ohio, Florida, Connecticut, Illinois, Washington, Tennessee, Minnesota, North Carolina, Maryland, Massachusetts, Missouri, British Columbia, Ontario, England, France, Denmark, Germany, Scotland, Poland, Czech Republic, Switzerland, Portugal, The Netherlands, Austria, Hong Kong, Australia, Dubai, China, Taiwan, Thailand, New Zealand, Vietnam and South Africa.

SST has developed and uses automated manufacturing processes. Its innovative manufacturing systems and techniques have allowed it to control manufacturing costs, while developing both new products and products that meet customized requirements and specifications. SST s development of specialized manufacturing processes has also permitted increased operating flexibility and enhanced product design innovation. The Company has 22 manufacturing locations in the United States, Canada, France, Denmark, Germany, Switzerland, Poland, Portugal, China and England. With the acquisition of S&P Clever Reinforcement Company AG and S&P Reinforcement International AG (collectively, S&P Clever) in 2012, SST acquired additional manufacturing facilities in Switzerland, Poland and Portugal.

Industry and Market Trends

Based on trade periodicals, participation in trade and professional associations and communications with governmental and quasi-governmental organizations and with customers and suppliers, Simpson Strong-Tie believes that a variety of events and trends have resulted in significant developments in the markets that SST serves. SST s products are designed to respond to increasing demand resulting from these trends. Some of these events and trends are discussed below.

In the United States, the market has been increasingly influenced both by growing awareness that the devastation caused by seismic, wind and other disasters can be reduced through improved building codes and construction practices. In addition, environmental concerns contribute to the increasing cost and reduced availability of wood, which has led to an increase in use of engineered wood products, concrete, brick and mortar and other alternatives such as cold-formed steel. Most SST products are listed by recognized building standards agencies as complying with model building codes and are specified by architects and engineers for use in projects they are designing or supervising. The engineered wood products industry continues to develop in response to concerns about the availability of wood, and the Company believes that SST is the leading supplier of connectors for use with engineered wood products.

Natural disasters throughout the world have focused attention on safety concerns relating to the structural integrity of homes and other buildings. The 2011 earthquake in Fukushima, Japan, and the resulting tsunami, the 2011 earthquake in Christchurch, New Zealand, the 2010 earthquakes off the coast of Chile and in Haiti, the 1995 earthquake in Kobe, Japan, the 1994 earthquake in Northridge, California, the 1989 Loma Prieta earthquake in Northern California, hurricanes Hugo in 1989 and Andrew in 1992, a series of hurricanes in 2004 and 2005, including Katrina, in the southeastern United States, the 2011 Joplin, Missouri, tornado and other cataclysmic natural disasters damaged and destroyed innumerable homes and other buildings, resulting in heightened consciousness of the fragility of some of those structures.

In the face of such disasters in recent years, architects, engineers, model code agencies, contractors, building inspectors and legislators have continued efforts to improve structural integrity and safety of homes and other buildings. Based on ongoing participation in trade and professional associations and communications with governmental and quasi-governmental regulatory agencies, SST believes that building codes are being more uniformly applied and their enforcement is becoming more rigorous.

Recently, there has been consolidation among several of SST s customer groups. The industry has experienced increased complexity in some home design, and builders are more aggressively trying to reduce their costs. SST has responded to these trends by marketing its products as systems, in addition to individual parts. In some cases, SST uses sophisticated design and specification software to facilitate systems marketing.

The requirements of the Endangered Species Act, the Federal Lands Policy Management Act and the National Forest Management Act have reduced the amount of timber available for harvest from public lands. Over the past several years, this and other factors have led to the increased use of engineered wood products. Engineered wood products, which substitute for strong, clear-grained lumber historically obtained from logging older, large-diameter trees, have been developed to conserve lumber. Engineered wood products frequently require specialized connectors and fasteners. Sales of SST s engineered wood connector and fastener products have contributed significant revenues over the past several years.

SST continues to support its distribution through home centers throughout the United States. Although SST s sales to home centers declined in 2010 and 2012, they increased in 2011. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

SST s principal markets are in the building construction industry. That industry is subject to significant volatility due to real estate market cycles, fluctuations in interest rates, the availability, or lack thereof, of credit to builders, developers and consumers, inflation rates, weather, and other factors and trends. The world-wide recession and the decline in residential construction that began in 2007 reduced the demand for SST s products. In recent years, there have been indications of an economic recovery with a corresponding increase in residential construction. See Item 1A Risk Factors.

Business Strategy

Simpson Strong-Tie designs, manufactures and sells products that are of high quality and performance, easy to use and cost-effective for customers. SST provides rapid delivery of its products and prompt engineering and sales support. SST intends to continue efforts to increase market share in both the wood construction and concrete construction product groups by maintaining frequent contact with our customers, as well as private organizations that provide information to building code officials, both to inform them regarding the quality, proper installation, capabilities and value of SST s products and to update them about product modifications and new products that may be useful or necessary. To attract new customers, SST also intends to continue to sponsor seminars to inform architects, engineers, contractors and building officials on appropriate use and proper installation of its products and to continue to invest in mobile and web applications for customers, utilizing social media, blog posts and videos to connect and engage with customers and to help them do their jobs more efficiently.

Through acquisition and product development, utilizing industry knowledge and customer information, SST continues to diversify its product offering to be less dependent on residential housing regardless of market ups and downs. Based on its communications with customers, engineers, architects, contractors and other industry participants, SST believes it has strong brand-name recognition, which will assist in the acceptance of new products in current and new markets, both domestic and international.

SST seeks to expand its product and distribution coverage through several channels:

Distributors. SST regularly evaluates its distribution coverage and service levels provided by its distributors and from time to time modifies its distribution strategy and implements changes to address weaknesses and opportunities. SST has various programs to evaluate distributor product mix and conducts promotions to encourage distributors to add SST products that complement the mix of product offerings in their markets.

Through its efforts to increase specifications by architects and engineers, and through increasing the number of products sold to particular contractors, SST seeks to increase sales to channels that serve building contractors. SST continuously seeks to expand the number of contractors served by each distributor through such sales efforts as demonstrations of product cost-effectiveness and information programs.

Home Centers. SST intends to increase penetration of the DIY markets by soliciting home centers and increasing product offerings. SST s sales force maintains on-going contact with home centers to work with them in a broad range of areas including inventory levels, retail display maintenance, and product knowledge training. To satisfy specialized requirements of the home center market, SST has developed extensive bar coding and merchandising aids and has devoted a portion of its research efforts to the development of DIY products.

Dealers. In some markets, SST sells its products directly to lumber dealers and cooperatives.

OEM Relationships. SST works closely with manufacturers of engineered wood products and OEMs in developing and expanding the application and sales of its engineered wood connector and fastener products. SST has relationships with several of the largest manufacturers of engineered wood products.

While SST is expanding its established facilities outside of the United States to increase its presence and sales in these markets, sales of some products may relate primarily to certain regions. For example, sales of SST s line of shearwalls are concentrated mostly in the western region of the United States, because their use is primarily intended to resist the effects of seismic forces. Since 1993, SST

- has established operations in the United Kingdom,
- opened manufacturing, warehouse and distribution facilities in western Canada, and the Midwest, Northeast, and eastern seaboard regions of the United States,
- purchased anchor products manufacturers in Illinois, eastern Canada and, France and connector product manufacturers in France, Denmark, Germany and Canada,
- acquired the assets of a leading manufacturer and distributor of screw fastening systems and collated screws with manufacturing and distribution operations in Tennessee and distribution in Canada, Europe, Australia and New Zealand, and acquired a manufacturer in Germany,
- acquired a manufacturer and distributor of stainless steel fasteners in Maryland, and consolidated its operations into the Company s Tennessee facility,
- built a manufacturing facility in China and opened sales offices in Hong Kong, Beijing, Shanghai and Dubai for distribution in Asia and the Middle East,
- acquired a software company that licenses deck design and estimation software,
- acquired software assets used by the Company s customers in designing and engineering residential structures,
- acquired a manufacturer of truss plates in North Carolina,
- acquired a manufacturer of construction products and systems to repair, protect and strengthen concrete in Maryland, and
- acquired a manufacturer of engineered materials for repair, strengthening and restoration of concrete, asphalt and masonry construction with manufacturing and sales offices in Switzerland, Poland and Portugal and sales offices in Austria, Germany and The Netherlands.

SST s European investments have established a presence in the European Community through companies with existing customer bases and through servicing United States-based customers operating in Europe. SST also distributes connector, anchor and epoxy products in Mexico, Australia, New Zealand, Asia, South Africa and the Middle East. SST intends to continue to pursue and expand operations both inside and outside of the United States (see Note 14 to the Company s Consolidated Financial Statements).

An SST goal is to manufacture and warehouse its products in geographic proximity to its markets to provide availability and rapid delivery of products to customers and prompt response to customer requests for specially designed products and services. With respect to the DIY and

dealer markets, SST s strategy is to keep the customer s retail stores continuously stocked with adequate supplies of the full line of SST s products that those stores carry. SST manages its inventory to help assure continuous product availability. Most customer orders are filled within a few days. High levels of manufacturing automation and flexibility allow SST to maintain its quality standards while continuing to provide prompt delivery.

The Company s long-term strategy is to develop, acquire or invest in product lines or businesses that have the potential to increase the Company s earnings per share over time and that

- complement SST s existing product lines,
- can be marketed through SST s existing distribution channels,
- might benefit from use of SST s brand names and expertise,
- are responsive to needs of SST s customers,
- expand SST s markets geographically and
- reduce SST s dependence on the United States residential construction market.

Products

Simpson Strong-Tie manufactures and markets building products and is a recognized brand name in residential and commercial applications. The product lines historically have encompassed connectors, anchors, fasteners and lateral resistive systems. More recently, Simpson Strong-Tie has entered into the truss plate market and acquired product lines for the marine, industrial and transportation markets.

The wood construction products group includes connectors, truss plates, fastening systems and shearwalls. Connectors are prefabricated metal products that attach wood, concrete, masonry or steel together. The metal connectors for wood can join solid sawn lumber, glued-laminated beams, engineered wood, structural composite lumber and plated trusses. Specialty structural connectors have also been developed for cold formed steel construction. Connectors are essential for tying construction elements together and create safer and stronger buildings. Integrated Component Systems is the name of Simpson Strong-Tie s full line of truss connector plates and software. Truss plates are toothed metal plates that join wood trusses together. SST uses sophisticated software analysis to model and design the trusses and to select appropriate truss plates for component manufacturers. The fastener line includes coated or stainless steel hand drive nails and screws in addition to stainless collated nails and staples. SST also offers a line of proprietary structural screws used to join plies of wood together or metal connectors to wood. Complimenting these products is the Quik Drive auto-feed screw driving system used in numerous applications such as decking, subfloors, drywall and roofing. SST s lateral resistive systems are assemblies used to resist earthquake or wind forces and include Strong-Wall Shearwalls, Anchor Tiedown Systems (ATS), Uplift Restraint Systems (URS), and Ordinary and Special steel moment frames.

Simpson Strong-Tie s concrete construction products are used for concrete, masonry and steel and include adhesives, chemicals, mechanical anchors, carbide drill bits, powder actuated tools and fiber reinforcing materials. SST s anchor products include adhesives, mechanical anchors, carbide drill bits and powder-actuated pins and tools used for numerous applications of anchoring or attaching elements onto concrete, brick, masonry and steel. With the recent acquisitions of Fox Industries and S&P Clever, SST now offers products for the repair, strengthening and protection of concrete, steel or wood structures or infrastructure elements including grouts, coatings, sealers, mortars, fiberglass systems, fiber-reinforced polymers and asphalt products.

Most Simpson Strong-Tie products are approved by building code evaluation agencies. To achieve such approvals, SST conducts extensive product testing, which is witnessed and certified by independent testing laboratories. The tests also provide the basis of load ratings for the SST structural products. This test and load information is used by architects, engineers, contractors, building officials and homeowners and is useful across all applications of SST s products, ranging from the deck constructed by a homeowner to a multi-story structure designed by an architect or engineer.

New Product and Software Development

SST commits substantial resources to new product development. The majority of SST s products have been developed through its internal research and development program. SST s research and development expense for the three years ended December 31, 2012, 2011 and 2010, was $11.5 million, $6.1 million, and $6.5 million, respectively. SST believes it is the only United States manufacturer with the capability to test multi-story wall systems, thus enabling testing rather than calculations alone to prove system performance. SST engineering, sales, product management, and marketing teams work together with architects, engineers, building inspectors, code officials and customers in the new product development process.

SST s product research and development is based largely on needs that customers communicate to SST and on SST s strategic initiatives to develop new markets or product lines. SST s strategy is to develop new products on a proprietary basis, to patent them when appropriate and to rely on trade secret protection for others. SST typically develops 10 to 20 new products each year.

In 2012, the Company expanded its wood construction products offering with the release of the Strong Frame® Special Moment Frame utilizing the Company s patented Yield-Link Structural Fuse. Similar to the way an electrical fuse protects electronics, a structural fuse is designed to sacrifice itself to save a larger structural element, in this case a moment frame. These fuses can be replaced after a large seismic event by unbolting the damaged Yield-Links and bolting on new fuses allowing the moment frame to remain in the structure during replacement, greatly reducing the cost and time of repairs. The Company launched an innovative and proprietary wood screw fastener for floor to floor connection that combines a specially-designed long Strong Drive® Structural Wood Screw (SDWS) with a patent pending take-up washer that is designed

to allow for wood shrinkage and building settlement while maintaining a tight connection between floors. In addition, the Company introduced concealed post tie and adjustable post base connector products for concealed installation and retrofit applications. The Company also released several new truss connector products for high load, severe skew and multiple member support, along with the Component Hoist Clip, a connector for hoisting the wood frame, and Cold-Formed Steel (CFS) components. The Company launched several other new SDWS products, such as a fastener for connecting wood trusses or rafters to the top of walls that resists uplift forces from high wind, a fastener for log home construction and a fastener for both wood and composite decking to wood or steel support elements.

The concrete construction product line also saw the release of several new products in 2012. The Company expanded its mechanical anchor offing with a new Stitch-Tie product designed to be used on existing masonry to repair cracks in walls and to increase their flexural strength. Two new code-listed bridging connectors for CFS studs were introduced, as was a new line spiral knurled pins, installed with a second generation new gas actuated tool for attaching plywood and oriented strand board to cold-formed steel. The Company also released a number of pre-assembled accessory pins for mechanical, electrical and plumbing applications for this new gas actuated tool. Within its powder-driven pin line the Company launched a new range of pins that offer higher shear and tension performance in normal weight concrete and structural steel.

SST has also redesigned several existing products in both its wood and concrete construction product lines to increase load capacity, reduce installation cost and enable the rationalization of SST s product range.

While continuing to serve the single-family residential new housing market, SST has increased development efforts for products used in multi-family residential markets and some light commercial and industrial markets, including CFS construction. Distribution channels have been receptive to these new products.

Sales and Marketing

Simpson Strong-Tie s sales and marketing programs are implemented through its branch system. SST currently maintains branches in Northern and Southern California, Texas, Ohio, Canada, England, France, Germany, Denmark, Switzerland, Poland, Portugal, Austria, The Netherlands, China, Australia, Hong Kong, Dubai, New Zealand, Thailand and South Africa. Each branch is served by its own sales force, warehouse and office facilities, while some branches have their own manufacturing facilities. Each branch is responsible for setting and executing sales and marketing strategies that are consistent both with the markets in the geographic area that the branch serves and with the goals of SST. The North American branches closely integrate their manufacturing activities to enhance product availability. Branch sales forces in North America are supported by marketing managers in the home office in Pleasanton, California. The home office also coordinates issues affecting customers that operate in multiple regions. The sales force maintains close working relationships with customers, develops new business, calls on architects, engineers and building officials and participates in a range of educational seminars.

SST sells its products through an extensive distribution system comprising dealer distributors supplying thousands of retail locations nationwide, contractor distributors, home centers, lumber dealers, manufacturers of engineered wood products, and specialized contractors such as roof framers. In recent years, home centers have been one of SST s important distribution channels, and SST s sales to The Home Depot exceeded 10% of the Company s consolidated net sales in 2010, 2011 and 2012 (see Item 1A Risk Factors, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 14 to the Company s Consolidated Financial Statements). SST s DIY and dealer products are used to build projects such as decks, patio covers and garage organization systems.

SST dedicates substantial resources to customer service. SST produces numerous publications and point-of-sale marketing aids to serve specifiers, distributors, retailers and users for the various markets that it serves. These publications include general catalogs, as well as various specific catalogs, such as those for its fastener products. The catalogs and publications describe the products and provide load and installation information. SST also maintains several linked websites centered on www.strongtie.com, which include catalogs, product and technical information, code reports and other general information related to SST s product lines and promotional programs.

SST s engineers not only design and test products, but also provide engineering support for customers. For example, this support might range from the discussion of a load value in a catalog to testing the suitability of an existing product in a unique application. SST s sales force communicates with customers in each of its marketing channels, through its publications, seminars and frequent sales calls.

Based on its communications with customers, SST believes that its products are important to its customers businesses, and it is SST s policy to ship products within a few days of receiving the order, with many of the orders shipped the same day. Many of SST s customers serve contractors that require rapid delivery of needed products. Home centers and dealers also require superior service because of fluctuating demand and to serve the needs of a broad base of customers. To satisfy these requirements, SST maintains appropriate inventory levels, has redundant manufacturing capability and some multiple dies to produce the same parts. SST maintains information systems that provide sales and inventory control and forecasting capabilities throughout its network of factories and warehouses. SST has special programs for contractors intended to ensure the prompt manufacture and delivery of custom products.

Simpson Strong-Tie believes that dealer and home center sales of SST products are significantly greater when the bins and racks at dealer and home center locations are adequately stocked with appropriate products. Various retailers carry varying numbers of SST products. SST s sales force is engaged in ongoing efforts to inform retailers about SST s merchandising programs and the appeal of the SST brand.

Manufacturing Process

Simpson Strong-Tie designs and manufactures most of its standard products. SST has concentrated on making its manufacturing processes as efficient as possible without compromising the quality or flexibility necessary to serve the needs of its customers. SST has developed and uses automated manufacturing processes. SST s innovative manufacturing systems and techniques have allowed it to control manufacturing costs, even while developing both new products and products that meet customized requirements and specifications. SST s development of specialized manufacturing processes also has permitted increased operating flexibility and enhanced product design innovation. As part of ongoing continuous improvement processes in its factories, SST s major North American and European manufacturing facilities initiated lean manufacturing practices to improve efficiency and customer service. SST sources some products from third party vendors, both domestically and internationally.

SST is committed to helping people build safer structures economically through designing, engineering and manufacturing structural connectors, pre-fabricated shearwalls, anchors, fasteners and related products. With the support and involvement of management, SST has developed a quality system that manages defined procedures to ensure consistent product quality and also meets the requirements of International Code Council (ICC) product evaluation reports. SST is recognized in its industry as a manufacturer of high quality products. Since 1996, SST s quality system has been registered under ISO 9001, an internationally recognized set of quality-assurance standards. The Company believes that ISO registration is a valuable tool for maintaining and promoting its high quality standards. As SST establishes new business locations through expansion or acquisitions, projects are established to integrate SST s quality systems and achieve ISO 9001 registration. In addition, SST has six testing laboratories accredited to ISO standard 17025, an internationally accepted standard that provides requirements for the competence of testing and calibration laboratories. SST implements testing requirements through systematic control of its processes, enhancing SST s standard for quality products, whether produced by SST or purchased from others.

Most of SST s wood construction products are produced with a high level of automation. For example, its connector products are produced using progressive dies run in automatic presses making parts from coiled sheet steel at rates that often exceed 100 strokes per minute. SST estimates that it produced over 800 million product pieces in 2012. SST has significant press capacity and has multiple dies for some of its high volume products to enable production of these products close to the customer and to provide back-up capacity. SST s also has smaller specialty production facilities, which primarily use batch production with some automated lines. For example, in Gallatin, Tennessee, SST produces non-ferrous and collated fasteners using automated batch production. The balance of production is accomplished through a combination of manual, blanking and numerically controlled (NC) processes that include robotic welders, lasers and turret punches. This capability allows SST to produce products with little redesign or set-up time, facilitating rapid turnaround for customers. New tooling is also highly automated. Dies are designed and produced using computer aided design (CAD) and computer aided machining (CAM) systems. CAD/CAM capability enables SST to create multiple dies quickly and design them to high standards. SST is constantly reviewing its product line to reduce manufacturing costs, increase automation, and take advantage of new types of materials.

SST manufactures its concrete construction products at its facilities in Zhangziajong, China, Addison, Illinois, Baltimore, Maryland, Cardet, France, Seewen, Switzerland, Malbork, Poland, and Elvas, Portugal. The mechanical anchor products are produced with a high level of automation. Some products, such as epoxy and adhesive anchors, are mixed in batches and are then loaded into one-part or two-part dispensers, which mix the product on the job site because set-up times are usually very short. In addition, SST purchases a number of products, powder actuated pins, tools and accessories and certain of its mechanical anchoring products, from various sources around the world. These purchased products undergo inspections on a sample basis for conformance with ordered specifications and tolerances before being distributed.

Regulation

Simpson Strong-Tie s product lines are subject to federal, state, county, municipal and other governmental and quasi-governmental regulations that affect product development, design, testing, analysis, load rating, application, marketing, sales, installation and use. A substantial portion of SST products have been evaluated and are recognized by governmental agencies and product evaluation report agencies. Some of the entities that recognize SST products include the International Code Council Evaluation Service (ICC-ES), the International Association of Plumbing and Mechanical Officials Uniform Evaluation Service (IAPMO ES), the City of Los Angeles (LARR s), the State of Florida, and California s Division of the State Architect (DSA).

These entities require that products be evaluated to applicable code requirements, design standards and test procedures. If there are no applicable testing and design standards in the current code for a product, these entities may develop their own product acceptance or evaluation criteria which must be followed to obtain the product s recognition and listing. SST considers product evaluation, recognition and listing to the building code as a significant tool that facilitates and expedites the use of SST s products by design professionals, building officials, inspectors and contractors. Industry members are more likely to use building products that have the appropriate recognition and listing than products that lack this acceptance. SST devotes considerable time and testing resources to obtaining and maintaining appropriate listings for its products. SST actively participates in industry related professional associations and building code committees both to keep abreast of regulatory changes and to provide comments and expertise to these regulatory agencies.

Competition

Simpson Strong-Tie faces a variety of competition in all of the markets in which it participates. This competition ranges from subsidiaries of large national or international corporations to small regional manufacturers. While price is an important factor, SST also competes on the basis of quality, breadth of product line, proprietary technology, technical support, availability of inventory, service (including custom design and manufacturing), field support and product innovation. As a result of differences in structural design and building practices and codes, SST s markets tend to differ by region. Within these regions, SST competes with companies of varying size, several of which also distribute their products nationally or internationally. See Item 1A Risk Factors.

Raw Materials

The principal raw material used by Simpson Strong-Tie is steel, including stainless steel. SST generally orders steel to specific American Society of Testing and Materials (ASTM) standards. SST also uses materials such as carbon fiber, epoxies and acrylics in the manufacture of its chemical anchoring and reinforcing products. SST purchases raw materials from a variety of commercial sources. SST s practice is to seek cost savings and enhanced quality by purchasing from a limited number of suppliers.

The steel industry is highly cyclical and prices for SST s raw materials are influenced by numerous factors beyond SST s control, including general economic conditions, competition, labor costs, foreign exchange rates, import duties, raw material shortages and trade restrictions. The steel market continues to be dynamic, with a high degree of uncertainty about future pricing trends. Steel prices are expected to increase from their fourth quarter 2012 levels, as steel mills have been raising prices as expected demand returns to the steel markets. SST expects steel prices to increase during the first half of 2013. Numerous factors may cause steel prices to increase in the future. In addition to increases in steel prices, mills have added surcharges for zinc, energy and freight in response to increases in their costs. These and other factors could adversely affect SST s cost and access to steel in 2013. If steel prices increase and SST is not able to maintain its prices or increase them sufficiently, SST s margins could deteriorate. See Item 1A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of

Operations. The Company historically has not attempted to hedge against changes in prices of steel or other raw materials.

Patents and Proprietary Rights

Simpson Strong-Tie has United States and foreign patents, the majority of which cover products that SST currently manufactures and markets. These patents, and applications for new patents, cover various design aspects of SST s products, as well as processes used in their manufacture. SST continues to develop new potentially patentable products, product enhancements and product designs. Although SST does not intend to apply for additional foreign patents covering existing products, SST has developed an international patent program to protect new products that it may develop. In addition to seeking patent protection, SST relies on unpatented proprietary technology to maintain its competitive position. See Item 1A Risk Factors.

Acquisitions and Expansion into New Markets

The Company s growth potential depends, to some extent, on its ability to penetrate new markets, both domestically and internationally. See Industry and Market Trends and Business Strategy. Therefore, the Company may in the future pursue acquisitions of product lines or businesses. See Item 1A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

In November 2010, the Company s subsidiary, Socom S.A.S., purchased certain assets of CGMI, formerly called Socom S.A. (Socom). The purchase price was $5.2 million in cash. Socom formulates and manufactures a line of chemical anchors in France. As a result of the acquisition, the Company recorded goodwill of $0.8 million and intangible assets of $1.5 million. Net tangible assets, including machinery and equipment and inventory accounted for the balance of the purchase price.

In December 2011, the Company purchased the assets of Fox Industries, Inc. (Fox Industries), a manufacturer of construction products and systems for restoring, protecting and strengthening concrete. The acquisition broadened the Company s concrete construction product line, while also extending the overall line into more commercial, industrial and infrastructure markets. The purchase price was $8.7 million. As a result of the acquisition, the Company recorded goodwill of $3.9 million and intangible assets subject to amortization of $2.9 million. Net tangible assets, including accounts receivable, inventory, some prepaid expenses, machinery and equipment and some liabilities, accounted for the balance of the purchase price.

In December 2011, the Company purchased the assets of Automatic Stamping, LLC, a manufacturer of truss plates, and Automatic Stamping Auxiliary Services, LLC and certain real property and improvements owned by TIMMCO, Inc. (collectively Automatic Stamping). Combined with the Company s truss design software, its operating expertise and distribution network, the Company plans to offer truss plates and software products to its existing North American customer base. The purchase price was $43.5 million. As a result of the acquisition, the Company recorded goodwill of $29.5 million and intangible assets subject to amortization of $4.6 million. Net tangible assets, including accounts receivable, inventory, land, building and machinery and equipment, accounted for the balance of the purchase price.

In January 2012, the Company purchased the equity of S&P Clever Reinforcement Company AG and S&P Clever International AG (collectively, S&P Clever) for $58.1 million. S&P Clever manufactures and sells engineered materials for repair, strengthening and restoration of concrete, asphalt and masonry construction and has operations throughout Europe. In the Company s preliminary allocation, it recorded goodwill of $19.9 million and intangible assets subject to amortization of $20.3 million. Tangible assets and liabilities, including current assets and liabilities and other non-current assets and liabilities, accounted for the balance of the purchase price.

In March 2012, the Company purchased substantially all of the assets of CarbonWrap Solutions, L.L.C. (CarbonWrap) for $5.5 million. CarbonWrap develops fiber-reinforced polymer products primarily for infrastructure and transportation projects. In the Company s preliminary allocation, it recorded goodwill of $3.6 million and intangible assets subject to amortization of $1.6 million. Net tangible assets consisting of accounts receivable, inventory, equipment and prepaid expenses accounted for the balance of the purchase price.

In December 2012, the Company completed a transaction with Keymark Enterprises LLC (Keymark). In 2011, the Company had purchased various software assets from Keymark and had engaged Keymark to perform software development for the Company, for which the Company had agreed to compensate Keymark at rates equal to a multiple of Keymark s costs. In the December 2012 transaction, the Company paid Keymark $9.1 million, hired thirty-nine Keymark employees to perform the development work that Keymark had previously been engaged to perform and purchased from Keymark various assets needed for that work. The December 2012 transaction also included termination of the Company s 2011 software development agreement with Keymark and the Company will be entitled to certain software license revenue that was

previously received by Keymark.

Seasonality and Cyclicality

Simpson Strong-Tie s sales are seasonal and cyclical. Operating results vary from quarter to quarter and with economic cycles. SST s sales are also dependent, to a large degree, on the North American residential home construction industry. See Item 1A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Environmental, Health and Safety Matters

The Company is subject to environmental laws and regulations governing emissions into the air, discharges into water, and generation, handling, storage, transportation, treatment and disposal of waste materials. The Company is also subject to other federal and state laws and regulations regarding health and safety matters. The Company believes that it has obtained all material licenses and permits required by environmental, health and safety laws and regulations in connection with the Company s operations and that its policies and procedures comply in all material respects with existing environmental, health and safety laws and regulations. See Item 1A Risk Factors.

Employees and Labor Relations

As of December 31, 2012, the Company had 2,188 full-time employees, of whom 870 were hourly employees and 1,318 were salaried employees. The Company believes that its overall compensation and benefits for the most part meet industry averages and that its relations with its employees are good.

A significant number of the employees at two of SST s facilities are represented by labor unions and are covered by collective bargaining agreements. SST s facility in San Bernardino County, California, has two of SST s collective bargaining agreements, one with tool and die craftsmen and maintenance workers, and the other with sheetmetal workers. These two contracts expire February 2014 and June 2014, respectively. Simpson Strong-Tie s facility in Stockton, California, is also a union facility with two collective bargaining agreements, which also cover tool and die craftsmen and maintenance workers and sheetmetal workers. These two contracts will expire June 2015 and September 2015, respectively. See Item 1A Risk Factors.

Available Information

The SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company makes available, free of charge, on its website at www.simpsonmfg.com, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statement, company governance guidelines and code of ethics and the charters of the Audit, the Compensation and Leadership Development, and the Governance and Nominating Committees of its Board of Directors. Printed copies of any of these materials will be provided free of charge on request.

Item 1A. Risk Factors.

You should carefully consider the following risks before you decide to buy or hold shares of our common stock. If any of the following risks actually occurs, our business, results of operations or financial condition would likely suffer. In such case, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our stock.

This and other public reports may contain forward-looking statements based on current expectations, assumptions, estimates and projections about us and our industry. Those forward-looking statements involve risks and uncertainties. Our actual results could differ materially from

those forward-looking statements as a result of many factors, as more fully described below and elsewhere in our public reports. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Worldwide economic conditions and credit tightening materially and adversely affect our business.

Our business has been materially and adversely affected by changes in regional, national or global economic conditions. Such changes have included or may include reduced consumer spending, reduced availability of capital, inflation, deflation, adverse changes in interest rates, reduced energy availability and increased energy costs, and government initiatives to manage economic conditions. Continuing instability in financial markets and the deterioration of other national and global economic conditions may have further materially adverse effects on our operations, financial results or liquidity, including the following:

- the financial stability of our customers or suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers;

- financial instability of the financial institutions where we have our cash balances invested could result in loss of our principal balance;

- one or more of the financial institutions that make available our revolving credit facility may become unable to fulfill their funding obligations, which could materially and adversely affect our liquidity;

- it may become even more costly or difficult for us to obtain the agreed or additional financing or to refinance our existing credit facility; and

- our assets may be impaired or subject to write down or write off.

Uncertainty about current global economic conditions may cause consumers of our products to postpone or refrain from spending in response to tighter credit, negative financial news, declines in income or asset values, or other adverse economic events or conditions, which could materially reduce demand for our products and materially and adversely affect our financial condition and operating results. Further deterioration of economic conditions would likely exacerbate these adverse effects, result in wide-ranging, adverse and prolonged effects on general business conditions, and materially and adversely affect our operations, financial results and liquidity.

Failure to comply with industry regulations could result in reduced sales and increased costs.

The design, capacity and quality of most of our products and manufacturing processes are subject to numerous and extensive regulations and standards promulgated by governmental, quasi-governmental and industry organizations. These regulations and standards are highly technical, complex and subject to frequent revision. If our products or manufacturing processes fail to comply with any regulations or standards, we may not be able to manufacture and market our products profitably. Failure to comply with regulations and standards could therefore materially reduce our sales and increase our costs.

If we fail to compete effectively, our revenue and profit margins could decline.

We face a variety of competition in all of the markets in which we participate. Many of our competitors have greater financial and other resources than we do. In addition, other technologies may render our products obsolete or noncompetitive. Other companies may find our markets attractive and enter those markets. Competitive pricing, including price competition or the introduction of new products, has in the past and may in the future have material adverse effects on our revenues and profit margins.

Our ability to compete effectively depends to a significant extent on the specification or approval of our products by architects, engineers, building inspectors, building code officials and customers. If a significant segment of those communities were to decide that the design, materials, manufacturing, testing or quality control of our products is inferior to that of any of our competitors, our sales and profits would be materially reduced.

If we lose all or part of a large customer, our sales and profits would decline.

We have substantial sales to a few large customers. Loss of all or part of our sales to a large customer would have a material adverse effect on our revenues and profits. Our largest customer accounted for 10%, 10% and 11% of net sales for the years ended December 31, 2012, 2011 and 2010, respectively. See Note 14 to the Company s Consolidated Financial Statements. This customer may endeavor to replace our products in some or all markets, with lower-priced products supplied by others or may otherwise reduce its purchases of our products. We also might reduce our dependence on our largest customer by reducing or terminating sales to one or more of the customer s subsidiaries. Any reduction in, or termination of, our sales to this customer would at least temporarily, and possibly longer, cause a material reduction in our net sales, income from operations and net income. A reduction in or elimination of our sales to our largest customer, or another of our larger customers, would increase our relative dependence on our remaining large customers.

In addition, our customers include retailers and distributors. Retail and distribution businesses have consolidated over time, which could increase the material adverse effect of losing any of them.

Increases in prices of raw materials could negatively affect our sales and profits.

Our principal raw material is steel, including stainless steel. The steel industry is highly cyclical. Numerous factors beyond our control, such as general economic conditions, competition, worldwide demand, material and labor costs, energy costs, foreign exchange rates, import duties and other trade restrictions, influence prices for our raw materials. Consolidation among domestic integrated steel producers, changes in supply and demand in steel markets, changes in foreign currency exchange rates and economic conditions, and other events have led to volatility in steel

costs. The domestic steel market is heavily influenced by three major United States manufacturers. We have not always been able, and in the future we might not be able, to increase our product prices in amounts that correspond to increases in costs of raw materials, without materially and adversely affecting our sales and profits.

We have not attempted to hedge against changes in prices of steel or other raw materials. In recent years, however, we have increased our steel purchases in an effort to mitigate the effects of rising steel prices. In some years since 2007 our sales have declined with the declines in the housing and financial markets. As a result, our inventory fluctuated substantially. Inventory fluctuation can materially and adversely affect our margins, cash flow and profits.

If we cannot protect our technology, we will not be able to compete effectively.

Our ability to compete effectively with other companies depends in part on our ability to maintain the proprietary nature of our technology, in part through patents. We might not be able to protect or rely on our patents. Patents might not issue pursuant to pending patent applications. Others might independently develop the same or similar technology, develop around the patented aspects of any of our products or proposed products, or otherwise obtain access to or circumvent our proprietary technology. We also rely on unpatented proprietary technology to maintain our competitive position. We might not be able to protect our know-how or other proprietary information. If we are unable to maintain the proprietary nature of our significant products, our sales and profits could be materially reduced.

In attempting to protect our proprietary information, we sometimes initiate lawsuits against competitors and others that we believe have infringed or are infringing our rights. In such an event, the defendant may assert counterclaims to complicate or delay the litigation or for other reasons. Litigation may be very costly and may result in adverse judgments that affect our sales and profits materially and adversely.

Integrating acquired businesses may divert management s attention away from our day-to-day operations.

We pursue acquisitions of product lines or businesses. Acquisitions involve numerous risks, including, for example:

- overvaluation of acquired businesses;
- difficulties assimilating the operations and products of acquired businesses;
- diversion of management s attention from other business concerns;
- undisclosed existing or potential liabilities of acquired businesses;
- slow acceptance or rejection of acquired businesses products by our customers;
- risks of entering markets in which we have little or no prior experience;
- litigation involving activities, properties or products of acquired businesses;

- increased cost of regulatory compliance and enforcement;
- consumer and other claims related to products of acquired businesses; and
- the potential loss of key employees of acquired businesses.

In addition, future acquisitions may involve our issuance of additional equity securities that dilute the value of our existing equity securities, increase our debt, and cause impairment and amortization expenses related to goodwill and other intangible assets, which could materially and adversely affect our profitability. Any acquisition could materially and adversely affect our business and operating results.

Significant costs to integrate our acquired operations may negatively affect our financial condition and the market price of our stock.

We will incur costs from integrating acquired business operations, products and personnel. These costs may be significant and may include expenses and other liabilities for employee redeployment, relocation or severance, combining teams and processes in various functional areas, reorganization or closures of facilities, and relocation or disposition of excess equipment. The integration costs that we incur may negatively affect our profitability and the market price of our stock.

Our future growth may depend on our ability to penetrate new domestic and international markets, which could reduce our profitability.

International construction customs, standards, techniques and methods differ from those in the United States. Laws and regulations applicable in new markets may be unfamiliar to us. Compliance may be substantially more costly than we anticipate. As a result, we may need to redesign products, or invent or design new products, to compete effectively and profitably in new markets. We expect that we will need significant time, which may be years, to generate substantial sales or profits in new markets.

Other significant challenges to conducting business in foreign countries include, among other factors, local acceptance of our products, political instability, changes in import and export regulations, changes in tariff and freight rates, fluctuations in foreign exchange rates and currency controls. We might not be able to penetrate these markets and any market penetration that occurs might not be timely or profitable. If we do not penetrate these markets within a reasonable time, we will be unable to recoup part or all of the significant investments we will have made in attempting to do so.

We may decide to dispose of assets and incur material expenses in doing so.

We have terminated in the past and may terminate in the future product lines or businesses if we determine that the cost of operating them is not warranted by their expected profitability. For example, we sold the assets of our subsidiary Simpson Dura-Vent Company, Inc. in 2010 and we terminated our heavy-duty mechanical anchor systems business in Ireland and Germany in 2012. In addition to employee severance, lease buy-outs and other shut-down costs, the net realizable value may be substantially less than our carrying cost of the assets of terminated operations, resulting in material costs and materially and adversely affecting our sales, assets, profitability and financial condition.

Seasons and business cycles affect our operating results.

Our sales are seasonal, with operating results varying from quarter to quarter. With some exceptions, our sales and income have historically been lower in the first and fourth quarters than in the second and third quarters of the year, as customers purchase construction materials in the late spring and summer months for the construction season. In addition, weather conditions, such as unseasonably warm, cold or wet weather, which affect, and sometimes delay or accelerate installation of some of our products, significantly affect our results of operations. Political and economic events can also affect our sales and profitability.

We have little control over the timing of customer purchases. Sales that we anticipate in one quarter may occur in another quarter, affecting both quarters results. In addition, we incur significant expenses as we develop, produce and market our products in anticipation of future orders. We maintain high inventory levels and typically ship orders as we receive them, so we operate with little backlog. As a result, net sales in any quarter generally depend on orders booked and shipped in that quarter. A significant portion of our operating expenses is fixed. Planned expenditures are based primarily on sales forecasts. When sales do not meet our expectations, our operating results will be reduced for the relevant quarters, as we will have already incurred expenses based on those expectations.

Our principal markets are in the building construction industry. That industry is subject to significant volatility due to real estate market cycles, fluctuations in interest rates, the availability, or lack thereof, of credit to builders and developers, inflation rates, weather, and other factors and trends. None of these factors or trends is within our control. Declines in commercial and residential construction, such as housing starts, and remodeling projects have reduced, and in the future can be expected to reduce, the demand for our products. Negative economic or construction industry performance adversely affects our business. Declines in construction activity or demand for our products have materially and adversely affected, and could in the future materially and adversely affect, our sales and profitability.

Product liability claims and product recalls could harm our reputation, sales and financial condition.

We design and manufacture most of our standard products and expect to continue to do so, although we buy raw materials and some manufactured products from others. We have on occasion found flaws and deficiencies in the manufacturing, design or testing of our products. We also have on occasion found flaws and deficiencies in raw materials and finished goods produced by others. Some flaws and deficiencies have not been apparent until after the products were installed by customers.

Many of our products are integral to the structural soundness or safety of the structures in which they are used. If any flaws or deficiencies exist in our products and if such flaws or deficiencies are not discovered and corrected before our products are incorporated into structures, the structures could be unsafe or could suffer severe damage, such as collapse or fire, and personal injury could result. Errors in the installation of our products, even if the products are free of flaws and deficiencies, could also cause personal injury and unsafe structural conditions. To the extent that such damage or injury is not covered by our product liability insurance and we are held to be liable, we could be required to correct such damage and to compensate persons who might have suffered injury, and our reputation, business and financial condition could be materially and adversely affected.

Even if a flaw or deficiency is discovered before any damage or injury occurs, we may need to recall products, and we may be liable for any costs necessary to replace recalled products or retrofit the affected structures. Any such recall or retrofit could entail substantial costs and adversely affect our reputation, sales and financial condition. We do not carry insurance against recall costs or the adverse business effect of a recall, and our product liability insurance may not cover retrofit costs.

Claims resulting from a natural disaster might be made against us with regard to damage or destruction of structures incorporating our products. Any such claims, if asserted, could materially and adversely affect our business and financial condition.

Claims that we infringe intellectual property rights of others may materially increase our expenses and reduce our profits.

Other parties have in the past and may in the future claim that our products or processes infringe their patent rights and other intellectual property rights. We may incur substantial costs and liabilities in investigating, defending and resolving such claims, whether or not they are meritorious, which may materially reduce our profitability and materially and adversely affect our business and financial condition. Litigation can be disruptive to normal business operations and may result in adverse rulings or decisions. If any such infringement claim is asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology, any of which could be costly and time-consuming. A ruling against us in an infringement lawsuit could include an injunction barring our production or sale of any infringing product. A damage award against us could include an award of royalties or lost profits and, if the court finds willful infringement, treble damages and attorneys fees.

Complying or failing to comply with environmental, health and safety laws and regulations could affect us materially and adversely.

We are subject to environmental laws and regulations governing emissions into the air, discharges into water, and generation, handling, storage, transportation, treatment and disposal of waste materials. We are also subject to other federal and state laws and regulations regarding health and safety matters.

Our manufacturing operations involve the use of solvents, chemicals, oils and other materials that are regarded as hazardous or toxic. We also use complex and heavy machinery and equipment that can pose severe safety hazards, especially if not properly and carefully used. Some of our products also incorporate materials that are hazardous or toxic in some forms, such as zinc and lead used in some steel galvanizing processes, chemicals used in our acrylic and epoxy anchoring products, and chemicals used in our concrete repair, strengthening and protecting products. The gun powder used in our powder-actuated tools is explosive. Misuse of other materials in some of our products could also cause injury or sickness.

If we do not obtain all material licenses and permits required by environmental, health and safety laws and regulations, we may be subject to regulatory action by governmental authorities. If our policies and procedures do not comply in all respects with existing environmental, health and safety laws and regulations, our activities might violate such laws and regulations. Even if our policies and procedures do comply, but our employees fail or neglect to follow them in all respects, we might incur similar liability. Relevant laws and regulations could change or new ones could be adopted that require us to obtain additional licenses and permits and cause us to incur substantial expense.

Our generation, handling, use, storage, transportation, treatment or disposal of hazardous or toxic materials, machinery and equipment might cause injury to persons or to the environment. We may need to take remedial action if properties that we occupy are contaminated by hazardous or toxic substances.

Any change in laws or regulations, any legal or regulatory violations, or any contamination, could materially and adversely affect our business and financial condition.

We depend on key management and technical personnel, the loss of whom could harm our business.

We depend on certain key management and technical personnel, including, among others, Thomas J Fitzmyers, Karen Colonias, Brian Magstadt, Phillip Terry Kingsfather, Michael J. Herbert and Jeffrey E. Mackenzie. The loss of one or more key employees could materially and adversely affect us.

Our success also depends on our ability to attract and retain additional highly qualified technical, marketing and management personnel necessary for the maintenance and expansion of our activities. We face strong competition for such personnel. We might not be able to attract or retain such personnel. In addition, when we experience periods with little or no profits, a decrease in compensation based on our profits may make it difficult to attract and retain highly qualified personnel.

Any work stoppage or interruption by employees could materially and adversely affect our business and financial condition.

A significant number of our employees are represented by labor unions and covered by collective bargaining agreements that will expire in 2014 and 2015. A work stoppage or interruption by a significant number of our employees could have a material and adverse effect on our sales and profitability.

International operations expose us to foreign exchange rate risk.

We have foreign exchange rate risk in our international operations and through purchases from foreign vendors. We do not currently hedge this risk. Changes in currency exchange rates could materially and adversely affect our sales and profitability.

Natural disasters could decrease our manufacturing capacity.

Most of our current and planned manufacturing facilities are located in geographic regions that have experienced major natural disasters, such as earthquakes, floods and hurricanes. Our disaster recovery plan may not be adequate or effective. We do not carry earthquake insurance. Other insurance that we carry is limited in the risks covered and the amount of coverage. Our insurance would not be adequate to cover all of our resulting costs, business interruption and lost profits when a major natural disaster occurs. A natural disaster rendering one or more of our manufacturing facilities totally or partially unusable, whether or not covered by insurance, would materially and adversely affect our business and financial condition.

Control by our principal stockholder reduces the ability of other stockholders to influence management.

Barclay Simpson, the Chairman Emeritus of our Board of Directors, controls approximately 16% of the outstanding shares of our common stock. Mr. Simpson and Thomas J Fitzmyers, the Chairman of our Board of Directors (even though Mr. Fitzmyers owns less than 1% of the outstanding shares of our common stock), have significant influence with respect to the election of our directors and over some fundamental changes affecting us, such as a merger or sale of assets or amendment of our Certificate of Incorporation or Bylaws.

Additional financing, if needed, to fund our working capital, growth or acquisitions may not be available on reasonable terms, or at all.

If our cash requirements for working capital or to fund our growth increase to a level that exceeds the amount of cash that we generate from operations, or if we should decide to make an acquisition that requires more cash than we have available internally and through our current credit arrangements, we will need to seek additional financing. In that event, we may need to enter into additional or new borrowing arrangements or consider equity financing. Additional or new borrowings may not be available on reasonable terms, or at all. Our ability to raise money by issuing and selling shares of our common or preferred stock would depend on general market conditions and the demand for our stock. We may be unable to raise adequate capital on reasonable terms by selling stock. If we sell stock, our existing stockholders could experience substantial dilution. Our inability to secure additional financing could prevent the expansion of our business, internally and through acquisitions.

Any issuance of preferred stock may dilute your investment and reduce funds available for dividends.

Our Board of Directors is authorized by our Certificate of Incorporation to determine the terms of one or more series of preferred stock and to authorize the issuance of shares of any such series on such terms as our Board of Directors may approve. Any such issuance could be used to impede an acquisition of our business that our Board of Directors does not approve, further dilute the equity investments of holders of our common stock and reduce funds available for the payment of dividends to holders of our common stock.

Our stock price is likely to be volatile and could drop.

The trading price of our common stock could be subject to wide fluctuations in response to period-to-period variations in operating results, changes in earnings estimates by analysts, announcements of technological innovations or new products by us or our competitors, general conditions in the construction and construction materials industries, relatively low trading volume in our common stock and other events or factors. In addition, the stock market is subject to extreme price fluctuations. This volatility has had a substantial effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of those companies. Securities market fluctuations may materially and adversely affect the market price of our common stock.

Future sales of common stock could adversely affect our stock price.

Our issuance of substantial amounts of our common stock could adversely affect the prevailing market price for our common stock. All of the outstanding shares of our common stock are freely tradable without restriction under the Securities Act of 1933, other than 8.0 million shares held February 20, 2013 by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933. Options to purchase 1.9 million shares of our common stock were outstanding as of December 31, 2012, including options to purchase 1.1 million shares that were exercisable. If a substantial number of shares were sold in the public market pursuant to Rule 144 or on exercise of options, the trading price of our common stock in the public market could be adversely affected.

Delaware law and our stockholder rights plan contain anti-takeover provisions that could deter takeover attempts that might otherwise be beneficial to our stockholders.

Provisions of Delaware law could make it more difficult for a third party to acquire us. Section 203 of the Delaware General Corporation Law may make the acquisition of Simpson Manufacturing Co., Inc. and the removal of incumbent officers and directors more difficult by prohibiting stockholders holding 15% or more of our outstanding voting stock from acquiring Simpson Manufacturing Co., Inc. without the consent of our Board of Directors for at least three years from the date they first hold 15% or more of the voting stock. Barclay Simpson and his affiliates are not subject to this provision of Delaware law with respect to their investment in Simpson Manufacturing Co., Inc. In addition, our Stockholder Rights Plan has significant anti-takeover effects by causing substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors.

We are subject to a number of significant risks that might cause our actual results to vary materially from our plans, targets or projections, including:

- lack of market acceptance of new products;
- failing to develop new products with significant market potential;
- increased labor costs, including significant increases in worker s compensation insurance premiums and health care benefits;
- failing to increase, or even maintain, sales and profits;

- failing to anticipate, appropriately invest in and effectively manage the human, information technology and logistical resources necessary to support the growth of our business, including managing the costs associated with such resources;

- failing to integrate, leverage and generate expected rates of return on investments, including expansion of existing businesses and expansion through acquisitions;

- failing to generate sufficient future positive operating cash flows and, if necessary, secure adequate external financing to fund our growth; and

- interruptions in service by common carriers that ship goods within our distribution channels.

If we change significantly the location, nature or extent of some of our manufacturing operations, we may reduce our net income.

If we decide to change significantly the location, nature or extent of a portion of our manufacturing operations, we may need to record an impairment of our goodwill. Our goodwill totaled $122.0 million at December 31, 2012. Recording an impairment of our goodwill correspondingly reduces our net income. In 2007, for example, we decided to move part of our Canadian manufacturing operations to China, and as a result, we recorded a goodwill impairment of $10.7 million, which materially reduced our net income in 2007. Other changes or events in the future could further impair our recorded goodwill, which could also materially and adversely affect our profitability.

Impairment charges on goodwill or other intangible assets would adversely affect our financial position and results of operations.

We are required to perform impairment tests on our goodwill and other intangible assets annually or at any time when events occur that could affect the value of such assets. To determine whether a goodwill impairment has occurred, we compare fair value of each of our reporting units with its carrying value. Significant and unanticipated changes in circumstances, such as significant adverse changes in business climate, adverse actions by regulatory authorities, unanticipated competition, loss of key customers or changes in technology or markets, can require a charge for impairment that can materially and adversely affect our reported net income and our stockholders equity. For example, in 2010, our annual impairment test resulted in goodwill impairment charge of $6.3 million associated with assets acquired in Germany and Ireland in 2008 as part of our European Anchor reporting unit, in 2011, our annual impairment test resulted in goodwill impairment charge of $1.3 million associated with assets acquired in England in 1999 as part of our U.K. reporting unit, and in 2012, our annual impairment test resulted in goodwill impairment charge of $2.3 million associated with assets acquired in Germany in 2002 and 2008 as part of our Germany reporting unit. The carrying value of each of these reporting units exceeded their respective fair values, primarily due to reduced future expected net cash flows from weakening profit margins. If current adverse conditions in the home-building industry, the financial markets or the economy generally should continue longer than we expect, we may need to take further charges for impairment, which we are not now able to estimate, but which may be substantial.

Failure of our internal control over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes:

- maintaining records that in reasonable detail accurately and fairly reflect our transactions;
- providing reasonable assurance that transactions are recorded as necessary for preparation of the consolidated financial statements;
- providing reasonable assurance that receipts and expenditures of our assets are made in accordance with management authorization; and
- providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements would be prevented or detected on a timely basis.

Because of the inherent limitations of internal control, our internal control over financial reporting might not detect or prevent misstatement of our consolidated financial statements. Our growth and entry into new, globally dispersed markets puts significant additional pressure on our system of internal control over financial reporting. Failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud.

Failure of our accounting systems could harm our business and financial results.

We have implemented a commercially available Microsoft third-party accounting software system, initially focused on replacing our internally developed general ledger and purchasing and payables systems, for use in our operations in the United States, Europe and Asia. Any errors or defects in, or unavailability of, third-party software or our implementation of the systems, could result in errors in our financial statements, which could materially and adversely affect our business. If we continue to use our other internally developed accounting systems and they are not able to accommodate our future business needs, or if we find that they or any new systems we may implement contain errors or defects, our business and financial condition could be materially and adversely affected.

Our international operations may be materially and adversely affected by factors beyond our control.

Economic, social and political conditions, laws, practices and customs vary widely among the countries where we produce or sell our products. Our operations outside of the United States are subject to a number of risks and potential costs, including, for example, lower profit margins, less protection of intellectual property and economic, political and social uncertainty in some countries. Our sales and profits depend, in part, on our ability to develop and

implement policies and strategies that effectively anticipate and manage these and other risks in the countries where we do business. These and other risks may materially and adversely affect our operations in any particular country and our business as a whole. Inflation in emerging markets also makes our products more expensive there and increases the market and credit risks to which we are exposed.

Our international operations depend on our successful management of our subsidiaries outside of the United States.

We conduct most of our international business through wholly owned subsidiaries. Managing distant subsidiaries and fully integrating them into our business is challenging. We cannot directly supervise every aspect of the operations of our subsidiaries operating outside the United States. As a result, we rely on local managers and staff. Cultural factors and language differences can result in misunderstandings among internationally dispersed personnel. The risk that unauthorized conduct may go undetected may be greater in subsidiaries outside of the United States. These problems could adversely affect our sales and profits.

Failure to comply with export, import, and sanctions laws and regulations could affect us materially and adversely.

We are subject to a number of export, import and economic sanction regulations, including the International Traffic in Arms Regulations (the ITAR), the Export Administration Regulations (the EAR) and U.S. sanction regulations administered by the U.S. Department of Treasury, Office of Foreign Assets (OFAC). Foreign governments where we have operations also implement export, import and sanction laws and regulations.

If we do not obtain all necessary import and export licenses required by applicable export and import regulations, including the ITAR and the EAR, we may be subject to fines, penalties and other regulatory action by governmental authorities, including, among other things, having our export or import privileges suspended. If we conduct business with any countries, entities or individuals sanctioned by OFAC or any equivalent foreign regulation or law, or otherwise fail to comply in any manner with applicable sanction regulations or laws, we may be subject to fines, penalties and other regulatory action. Even if our policies and procedures for exports, imports and sanction regulations comply, but our employees fail or neglect to follow them in all respects, we might incur similar liability.

Any change in applicable export, import or sanction laws or regulations or any legal or regulatory violations could materially and adversely affect our business and financial condition.

Our manufacturing facilities in China complicate our inventory management.

We maintain manufacturing capability in various parts of the world, in part to allow us to serve our customers with prompt delivery of needed products. Such customer service is a significant factor in our efforts to compete with larger companies that have greater resources than we have. In recent years, we have substantially expanded our manufacturing in China. Much of the output of our manufacturing in China is and will be intended for export to other parts of Asia and elsewhere. Because of the unusually great distances between our manufacturing facilities in China and the markets to which the products made there will be shipped, we may have difficulty providing adequate service to our customers, which may put us at a competitive disadvantage. Our attempts to provide prompt delivery may necessitate that in China we produce and keep on hand substantially more inventory of finished products than would otherwise be needed. Inventory fluctuations can materially and adversely affect our margins, cash flow and profits.

If we fail to keep pace with advances in our industry or fail to persuade customers to adopt new products we introduce, customers may not buy our products, which would adversely affect our sales and profits.

Constant development of new technologies and techniques, frequent new product introductions and strong price competition characterize the construction industry. The first company to introduce a new product or technique to the market gains a competitive advantage. Our future growth depends, in part, on our ability to develop products that are more effective or safer or incorporate emerging technologies better than our competitors products. Sales of our existing products may decline rapidly if a competitor were to introduce superior products, or even if we announce a new product of our own. If we fail to make sufficient investments in research and development or if we focus on technologies that do not lead to better products, our current and planned products could be surpassed by more effective or advanced products. If we fail to manufacture our products economically and market them successfully, our sales and profits would be materially and adversely affected.

Changes in accounting standards could materially and adversely affect our financial results.

The accounting rules applicable to public companies are subject to frequent revision. Future changes in accounting standards, guidance and interpretations could require us to change the way we measure revenue, expense or balance sheet amounts, which could result in material and adverse change to our reported results of operations or financial condition.

Climate change could materially and adversely affect our business.

Scientific reports indicate that, as a result of human activity:

- temperatures around the world have been increasing and are likely to continue to increase as a result of increasing atmospheric concentrations of carbon dioxide and other carbon compounds,
- the frequency and severity of storms and flooding are likely to increase,
- severe weather is likely to occur in places where the climate has historically been more mild, and
- average sea levels have risen and are likely to rise more, threatening worldwide coastal development.

We cannot predict the effects that these phenomena may have on our business. They might, for example:

- depress or reverse economic development,
- reduce the demand for construction,
- increase the cost and reduce the availability of fresh water,
- destroy forests, increasing the cost and reducing the availability of wood products used in construction,
- increase the cost and reduce the availability of raw materials and energy,
- increase the cost of capital,
- increase the cost and reduce the availability of insurance covering damage from natural disasters,
- lead to claims regarding the content or adequacy of our public disclosures, and
- lead to new laws and regulations that increase our expenses and reduce our sales.

Any of these consequences, and other consequences of climate change that we do not foresee, could materially and adversely affect our sales, profits and financial condition.

We are subject to U.S. and international tax laws that could affect our financial results.

We conduct international operations through our subsidiaries. Tax laws affecting international operations are complex and subject to change. Our income tax liabilities in the different countries where we operate depend in part on internal settlement prices and administrative charges among us and our subsidiaries. These arrangements require us to make judgments with which tax authorities may disagree. Tax authorities may impose additional tariffs, duties, taxes, penalties and interest on us. For example, we manufacture steel products in foreign countries for importation into the U.S. and other countries, and government agencies may impose substantial prospective or retroactive tariffs on such products. Transactions that we have arranged in light of current tax rules could have material and adverse consequences if tax rules change, and changes in tax rules or imposition of any new or increased tariffs, duties and taxes could materially and adversely affect our sales, profits and financial condition.

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

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

If we are unable to protect our information systems against data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We depend on information technology networks and systems, including the internet, to process, transmit and store electronic information. We depend on our information technology infrastructure for electronic communications among our locations around the world and between our personnel and our subsidiaries, customers and suppliers. Security breaches of this infrastructure could create system disruptions, shutdowns or unauthorized disclosure of confidential information. Security breaches could disrupt our operations, and we could suffer financial damage or loss because of lost or misappropriated information.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company owns its home office in Pleasanton, California, and its principal United States manufacturing facilities in Stockton and San Bernardino County, California, McKinney, Texas, and Columbus, Ohio. The principal manufacturing facilities located outside the United States, the majority of which are owned, are in Canada, France, Denmark, Poland, Portugal and China. The Company also owns and leases smaller manufacturing facilities, warehouses, research and development facilities and sales offices in the United States, Europe, Australia, Asia and the Middle East. As of February 28, 2013, the Company s owned and leased facilities were as follows:

	Number Of Properties	Approximate Square Footage		
		Owned	Leased (in thousands of square feet)	Total
North America	21	2,122	604	2,726
Europe	19	549	224	773
Asia/Pacific	14	175	52	227
Administrative and all other	2	368		368
Total	56	3,214	880	4,094

The Company s properties are constructed primarily of steel, brick or concrete and, in management s opinion, are maintained in good operating condition. The Company s manufacturing facilities are equipped with specialized equipment and use extensive automation. The Company considers its existing and planned facilities to be adequate for its operations as currently conducted and as planned through 2013. The Company s leased facilities typically have renewal options and have expiration dates through 2022. The Company believes it will be able to extend leases on its various facilities as necessary, as they expire. The manufacturing facilities currently are being operated with one full shift. The Company anticipates that it may require additional facilities to accommodate possible future growth.

In January 2012, as part of the acquisition of S&P Clever, the Company acquired land and buildings in Switzerland, Germany and Poland. In March 2012, the Company sold its facility in San Leandro, California. At December 31, 2012, the Company had classified its facility in Hungen, Germany, as assets held for sale. In December 2012, the Company ceased operations in Ireland and has closed its facilities there. It is likely the

Ireland property will also be classified as asset held for sale in 2013.

The Company retained its real estate in Vacaville, California. On completion of the sale of the Simpson Dura-Vent assets to M&G in 2010, the Company leased that facility to M&G for approximately $0.9 million per year for ten years. This property is classified as Administrative and all other.

In March 2010, the Company acquired a facility in San Bernardino County, California, for $19.2 million in cash. The Company consolidated its operations from Brea, California, and its former leased warehouse in Ontario, California, into this facility in the second quarter of 2011. The Company sold all of the real estate associated with its Brea properties in July 2010 for $14.7 million in cash and recorded a gain on the sale of $5.2 million.

Item 3. 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 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 environmental matters will have a material adverse effect on the Company s financial condition, cash flows or results of operations.

Corrosion, hydrogen embrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations, misuse, design and assembly flaws, manufacturing defects, environmental conditions or other factors can contribute to failure of fasteners, connectors, anchors, adhesives 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.

Pending Claims

Four lawsuits (the Cases) have been filed against the Company in the Hawaii First Circuit Court: *Alvarez v. Haseko Homes, Inc. and Simpson Manufacturing, Inc.*, Civil No. 09-1-2697-11 (Case 1); *Ke Noho Kai Development, LLC v. Simpson Strong-Tie Company, Inc.*, *and Honolulu Wood Treating Co., LTD.*, Case No. 09-1-1491-06 SSM (Case 2); *North American Specialty Ins. Co. v. Simpson Strong-Tie Company, Inc. and K.C. Metal Products, Inc.*, Case No. 09-1-1490-06 VSM (Case 3); and *Charles et al. v. Haseko Homes, Inc. et al. and Third Party Plaintiffs Haseko Homes, Inc. et al. v. Simpson Strong-Tie Company, Inc., et al.*, Civil No. 09-1-1932-08 (Case 4). Case 1 was filed on November 18, 2009. Cases 2 and 3 were originally filed on June 30, 2009. Case 4 was filed on August 19, 2009. The Cases all relate to alleged premature corrosion of the Company s strap tie holdown products installed in buildings in a housing development known as Ocean Pointe in Honolulu, Hawaii, allegedly causing property damage. Case 1 is a putative class action brought by the owners of allegedly affected Ocean Pointe houses. Case 1 was originally filed as *Kai et al. v. Haseko Homes, Inc., Haseko Construction, Inc. and Simpson Manufacturing, Inc.*, Case No. 09-1-1476, but was voluntarily dismissed and then re-filed with a new representative plaintiff. Case 2 is an action by the builders and developers of Ocean Pointe against the Company, claiming that either the Company s strap tie holdowns are defective in design or manufacture or the Company failed to provide adequate warnings regarding the products susceptibility to corrosion in certain environments. Case 3 is a subrogation action brought by the insurance company for the builders and developers against the Company claiming the insurance company expended funds to correct problems allegedly caused by the Company s products. Case 4 is a putative class action brought, like Case 1, by owners of allegedly affected Ocean Pointe homes. In Case 4, Haseko Homes, Inc. (Haseko), the developer of the Ocean Pointe development, brought a third party complaint against the Company alleging that any damages for which Haseko may be liable are actually the fault of the Company. Similarly, Haseko s sub-contractors on the Ocean Pointe development brought cross-claims against the Company seeking indemnity and contribution for any amounts for which they may ultimately be found liable. None of the Cases alleges a specific amount of damages sought, although each of the Cases seeks compensatory damages, and Case 1 seeks punitive damages. Cases 1 and 4 have been consolidated. In December 2012, the Court granted the Company summary judgment on the claims asserted by the plaintiff homeowners in Cases 1 and 4, and on the third party complaint and cross-claims asserted by Haseko and the sub-contractors, respectively, in Case 4. Haseko and the sub-contractors may yet attempt to assert new or additional claims against the Company, and the Court has not definitively precluded them from doing so. The Company continues to investigate the facts underlying the claims asserted in the Cases, including, among other things, the cause of the alleged corrosion; the severity of any problems shown to exist; the buildings affected; the responsibility of the general contractor, various subcontractors and other construction professionals for the alleged damages; the amount, if any, of damages suffered; and the costs of repair, if needed. At this time, the likelihood that the Company will be found liable under any legal theory, and the extent of such liability, if any, are unknown. Management believes the Cases may not be resolved for an extended period. The Company intends to defend itself vigorously in connection with the Cases.

Based on facts currently known to the Company, the Company believes that all or part of the claims alleged in the Cases may be covered by its insurance policies. On April 19, 2011, an action was filed in the United States District Court for the District of Hawaii, *National Union Fire Insurance Company of Pittsburgh, PA v. Simpson Manufacturing Company, Inc., et al.,* Civil No. 11-00254 ACK. In this action, Plaintiff National Union Fire Insurance Company of Pittsburgh, Pennsylvania (National Union), which issued certain Commercial General Liability insurance policies to the Company, seeks declaratory relief in the Cases with respect to its obligations to defend or indemnify the Company,

Simpson Strong-Tie Company Inc., and a vendor of the Company s strap tie holdown products. By Order dated November 7, 2011, all proceedings in the *National Union* action have been stayed. If the stay is lifted and the National Union action is not dismissed, the Company intends vigorously to defend all claims advanced by National Union.

On April 12, 2011, Fireman s Fund Insurance Company (Fireman s Fund), another of the Company s general liability insurers, sued Hartford Fire Insurance Company (Hartford), a third insurance company from whom the Company purchased general liability insurance, in the United States District Court for the Northern District of California, *Fireman s Fund Insurance Company v. Hartford Fire Insurance Company*, Civil No. 11 1789 SBA (the *Fireman s Fund* action). The Company has intervened in the *Fireman s Fund* action and has moved to stay all proceedings in that action as well, pending resolution of the underlying Ocean Pointe Cases.

On November 21, 2011, the Company commenced a lawsuit against National Union, Fireman s Fund, Hartford and others in the Superior Court of the State of California in and for the City and County of San Francisco (the *San Francisco* coverage action). In the *San Francisco* coverage action, the Company alleges generally that the separate pendency of the *National Union* action and the *Fireman s Fund* action presents a risk of inconsistent adjudications; that the San Francisco Superior Court has jurisdiction over all of the parties and should exercise jurisdiction at the appropriate time to resolve any and all disputes that have arisen or may in the future arise among the Company and its liability insurers; and that the *San Francisco* coverage action should also be stayed pending resolution of the underlying Ocean Pointe Cases. The *San Francisco* coverage action has been ordered stayed pending resolution of the Cases.

Nishimura v. Gentry Homes, Ltd; Simpson Manufacturing Co., Inc.; and Simpson Strong-Tie Company, Inc., Civil no. 11-1-1522-07, was filed in the Circuit Court of the First Circuit of Hawaii on July 20, 2011. The *Nishimura* case alleges premature corrosion of the Company s strap tie holdown products in a housing development at Ewa Beach in Honolulu, Hawaii. The case is a putative class action brought by owners of allegedly affected homes. The Complaint alleges that the Company s strap products and mudsill anchors are insufficiently corrosion resistant and/or fail to comply with Honolulu s building code. In February 2012, the Court dismissed three of the five claims the plaintiffs had asserted against the Company. The Company is currently investigating the allegations of the complaint, including, among other things: the existence and extent of the alleged corrosion, if any; the building code provisions alleged to be applicable and, if applicable, whether the products complied; the buildings affected; the responsibility of the general contractor, various subcontractors and other construction professionals for the alleged damages; the amount, if any, of damages suffered; and the costs of repair, if any are needed. At this time, the likelihood that the Company will be found liable for any damage allegedly suffered and the extent of such liability, if any, are unknown. The Company denies any liability of any kind and intends to defend itself vigorously in this case.

With respect to these legal proceedings, individually and in the aggregate, the Company has not yet been able to determine whether an unfavorable outcome is probable or reasonably possible and has not been able to reasonably estimate the amount or range of any possible loss. As a result, no amounts have been accrued or disclosed in the accompanying consolidated financial statements with respect to these legal proceedings.

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

Item 4. Mine Safety Disclosure.

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company s common stock is listed on the New York Stock Exchange (NYSE) under the symbol SSD. The following table shows the range of high and low closing sale prices per share of the common stock as reported by the NYSE and dividends paid per share of common stock for the calendar quarters indicated:

	Market Price		Dividends
Quarter	**High**	**Low**	**Paid**
2012			
Fourth	$ 33.74	$ 28.57	$ 0.250
Third	30.06	23.69	0.125
Second	32.48	26.64	0.125
First	34.55	28.69	0.125
2011			
Fourth	$ 35.23	$ 23.43	$ 0.125
Third	30.57	23.86	0.125
Second	30.39	26.05	0.125
First	31.67	26.21	0.125