SIMPSON MANUFACTURING CO INC /CA/
Form 10-Q
May 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2013

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**

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 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

The number of shares of the registrant s common stock outstanding as of March 31, 2013: 48,556,533

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, unaudited)

	March 31, 2013	March 31, 2012	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	$ 141,965	$ 160,092	$ 175,553
Trade accounts receivable, net	102,813	107,257	82,812
Inventories	202,341	184,068	204,124
Deferred income taxes	12,419	12,139	11,473
Assets held for sale	577		593
Other current assets	20,377	14,095	23,499
Total current assets	480,492	477,651	498,054
Property, plant and equipment, net	211,010	209,460	213,452
Goodwill	122,582	130,556	121,981
Intangible assets, net	45,278	43,484	50,598
Other noncurrent assets	12,185	5,860	6,237
Total assets	$ 871,547	$ 867,011	$ 890,322
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Line of credit and notes payable	$ 1,214	$ 3,556	$ 178
Trade accounts payable	30,958	35,109	37,117
Accrued liabilities	31,290	35,746	44,923
Income taxes payable		1,193	
Accrued profit sharing trust contributions	1,849	1,683	5,191
Accrued cash profit sharing and commissions	4,707	6,598	3,414
Accrued workers compensation	4,673	5,485	4,692
Total current liabilities	74,691	89,370	95,515
Long-term debt, net of current portion		240	
Long-term liabilities	8,435	6,300	5,239
Total liabilities	83,126	95,910	100,754
Commitments and contingencies (Note 7)			
Stockholders equity			
Common stock, at par value	485	482	483
Additional paid-in capital	184,550	174,831	184,677
Retained earnings	597,104	581,779	592,309
Accumulated other comprehensive income	6,282	14,009	12,099
Total stockholders equity	788,421	771,101	789,568
Total liabilities and stockholders equity	$ 871,547	$ 867,011	$ 890,322

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

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands except per-share amounts, unaudited)

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
Net sales	$	154,535	$	158,734
Cost of sales		89,561		89,329
Gross profit		64,974		69,405
Operating expenses:				
Research and development and other engineering		8,308		9,198
Selling		21,371		20,432
General and administrative		26,290		26,244
Loss (gain) on sale of assets		(8)		23
		55,961		55,897
Income from operations		9,013		13,508
Interest income, net		38		65
Income before taxes		9,051		13,573
Provision for income taxes		4,256		6,372
Net income	$	4,795	$	7,201
Earnings per common share:				
Basic	$	0.10	$	0.15
Diluted	$	0.10	$	0.15
Number of shares outstanding				
Basic		48,536		48,273
Diluted		48,626		48,337
Cash dividends declared per common share	$		$	0.125

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

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands, unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Net income	$ 4,795	$ 7,201
Other comprehensive (loss) income		
Translation adjustment, net of tax benefit (expense) of ($84) and $23, respectively	(5,817)	7,226
Comprehensive (loss) income	$ (1,022)	$ 14,427

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

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders Equity

for the three month periods ended March 31, 2012 and 2013 and for the nine months ended December 31, 2012

(In thousands except per-share amounts, unaudited)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2012	48,163	$ 481	$ 170,483	$ 580,616	$ 6,783	$ 758,363
Net income				7,201		7,201
Translation adjustment, net of tax					7,226	7,226
Stock options exercised	74	1	1,757			1,758
Stock-based compensation			3,110			3,110
Tax effect of options exercised			(2)			(2)
Shares issued from release of Restricted Stock Units	61		(935)			(935)
Cash dividends declared on common stock, $0.125 per share				(6,038)		(6,038)
Common stock issued at $33.71 per share for stock bonus	12		418			418
Balance, March 31, 2012	48,310	482	174,831	581,779	14,009	771,101
Net income				34,717		34,717
Translation adjustment, net of tax					(1,667)	(1,667)
Pension adjustment, net of tax					(243)	(243)
Stock options exercised	111	1	3,166			3,167
Stock-based compensation			7,085			7,085
Tax effect of options exercised			(231)			(231)
Shares issued from release of Restricted Stock Units	1		(174)			(174)
Cash dividends declared on common stock, $0.50 per share				(24,187)		(24,187)
Balance, December 31, 2012	48,422	483	184,677	592,309	12,099	789,568
Net income				4,795		4,795
Translation adjustment, net of tax					(5,817)	(5,817)
Stock options exercised	18	1	495			496
Stock-based compensation			2,813			2,813
Tax effect of options exercised			(1,843)			(1,843)
Shares issued from release of Restricted Stock Units	108	1	(1,907)			(1,906)
Common stock issued at $33.83 per share for stock bonus	9		315			315
Balance, March 31, 2013	48,557	$ 485	$ 184,550	$ 597,104	$ 6,282	$ 788,421

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

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities		
Net income	$ 4,795	$ 7,201
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Loss (gain) on sale of assets	(8)	23
Depreciation and amortization	7,487	6,721
Impairment loss on assets	1,024	461
Deferred income taxes	2,093	(205)
Noncash compensation related to stock plans	2,977	3,184
Excess tax benefit of options exercised		(99)
Provision for doubtful accounts	(39)	(87)
Changes in operating assets and liabilities, net of acquisitions:		
Trade accounts receivable	(21,006)	(26,585)
Inventories	823	3,154
Trade accounts payable	(5,578)	10,379
Income taxes payable	927	3,899
Accrued profit sharing trust contributions	(3,335)	(2,802)
Accrued cash profit sharing and commissions	1,318	3,115
Other current assets	16	723
Accrued liabilities	(9,179)	(9,865)
Long-term liabilities	(612)	313
Accrued workers compensation	(18)	10
Other noncurrent assets	(417)	1,100
Net cash provided by (used in) operating activities	(18,732)	640
Cash flows from investing activities		
Capital expenditures	(4,632)	(3,249)
Asset acquisitions, net of cash acquired	(5,300)	(56,040)
Proceeds from sale of property and equipment	17	6,847
Loan repayment by related parties	605	
Net cash used in investing activities	(9,310)	(52,442)
Cash flows from financing activities		
Debt and line of credit borrowings	1,080	
Repayment of debt and line of credit borrowings	(20)	(41)
Issuance of common stock	496	1,758
Excess tax benefit of options exercised		99
Dividends paid	(6,053)	(6,020)
Net cash used in financing activities	(4,497)	(4,204)
Effect of exchange rate changes on cash and cash equivalents	(1,049)	2,281
Net decrease in cash and cash equivalents	(33,588)	(53,725)
Cash and cash equivalents at beginning of period	175,553	213,817
Cash and cash equivalents at end of period	$ 141,965	$ 160,092
Noncash activity during the period		
Noncash capital expenditures	$ 140	$ 70

Dividends declared but not paid		6,038
Issuance of Company s common stock for compensation	315	418
Non-cash contingent consideration		786

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

Simpson Manufacturing Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Principles of Consolidation

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

Interim Period Reporting

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These interim statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the 2012 Annual Report).

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

Revenue Recognition

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

Net Earnings Per Common Share

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

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

(in thousands, except per share amounts)	Three Months Ended March 31, 2013	2012
Net income available to common stockholders	$ 4,795	$ 7,201
Basic weighted average shares outstanding	48,536	48,273
Dilutive effect of potential common stock equivalents stock options	90	64
Diluted weighted average shares outstanding	48,626	48,337
Earnings per common share:		
Basic	$ 0.10	$ 0.15
Diluted	0.10	0.15
Potentially dilutive securities excluded from earnings per diluted share because their effect is anti-dilutive		1,347

Accounting for Stock-Based Compensation

With the approval of the Company s stockholders on April 26, 2011, the Company adopted the Simpson Manufacturing Co., Inc. 2011 Incentive Plan (the 2011 Plan). The 2011 Plan amended and restated in their entirety, and incorporated and superseded, both the Simpson Manufacturing Co., Inc. 1994 Stock Option Plan (the 1994 Plan), which was principally for the Company s employees, and the Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan (the 1995 Plan), which was for its independent directors. Options previously granted under the 1994 Plan or the 1995 Plan will not be affected by the adoption of the 2011 Plan and will continue to be governed by the 1994 Plan or the 1995 Plan, respectively.

Under the 1994 Plan, the Company could grant incentive stock options and non-qualified stock options. The Company, however, granted only non-qualified stock options under both the 1994 Plan and the 1995 Plan. The Company generally granted options under each of the 1994 Plan and the 1995 Plan once each year. The exercise price per share of each option granted under the 1994 Plan equaled the closing market price per share of the Company s common stock as reported by the New York Stock Exchange on the day preceding the day that the Compensation and Leadership Development Committee of the Company s Board of Directors met to approve the grant of the options. The exercise price per share under each option granted under the 1995 Plan was at the fair market value on the date specified in the 1995 Plan. Options vest and expire according to terms established at the grant date. Options granted under the 1994 Plan typically vest evenly over the requisite service period of four years and have a term of seven years. The vesting of options granted under the 1994 Plan will be accelerated if the grantee ceases to be employed by the Company after reaching age 60 or if there is a change in control of the Company. Options granted under the 1995 Plan were fully vested on the date of grant. Shares of common stock issued on exercise of stock options under the 1994 Plan and the 1995 Plan are registered under the Securities Act of 1933.

Under the 2011 Plan, the Company may grant incentive stock options, non-qualified stock options, restricted stock and restricted stock units, although the Company currently intends to award primarily restricted stock units and to a lesser extent, if at all, non-qualified stock options. The Company does not currently intend to award incentive stock options or restricted stock. Under the 2011 Plan, no more than 16.3 million shares of the Company s common stock may be issued (including shares already sold) pursuant to all awards under the 2011 Plan, including on exercise of options previously granted under the 1994 Plan and the 1995 Plan. Shares of common stock to be issued pursuant to the 2011 Plan are registered under the Securities Act of 1933.

The following table represents the Company s stock option and restricted stock unit activity for the three month periods ended March 31, 2013 and 2012:

(in thousands)		**Three Months Ended March 31, 2013**		**2012**
Stock-based compensation expense recognized in operating expenses	$	2,879	$	3,068
Tax benefit of stock-based compensation expense in provision for income taxes		1,137		1,066
Stock-based compensation expense, net of tax	$	1,742	$	2,002
Fair value of shares vested	$	2,813	$	3,110
Proceeds to the Company from the exercise of stock-based compensation	$	496	$	1,758
Tax effect from exercise of stock-based compensation, including shortfall tax benefits	$	(1,843)	$	(2)
		At March 31, 2013		**2012**
Stock-based compensation cost capitalized in inventory	$	361	$	387

The amounts included in cost of sales, research and development and other engineering, selling, or general and administrative expense depend on the job functions performed by the employees to whom the stock options and restricted stock units were awarded.

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

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards CodificationTM (ASC) establishes a valuation hierarchy for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; Level 3 inputs are unobservable inputs based on the Company s assumptions used to measure assets and liabilities at fair value. A financial asset s or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company s investments consisted of only United States Treasury securities and money market funds, which are the Company s primary financial instruments, maintained in cash equivalents and carried at cost, approximating fair value, based on Level 1 inputs. The balance of the Company s primary financial instruments was as follows:

(in thousands)	At March 31, 2013	At March 31, 2012	At December 31, 2012
Financial instruments	$ 59,074	$ 69,987	$ 76,130

The carrying amounts of trade receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. The fair value of the Company s line of credit is classified as Level 2 within the fair value hierarchy and is calculated based on borrowings with similar maturities, current remaining average life to maturity and current market conditions.

Income Taxes

The Company uses an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in each interim period. The 2013 effective tax rate was higher than statutory tax rates due to 2013 valuation allowances taken on $3.5 million in foreign losses, primarily from the European segment.

The following table presents the Company s effective tax rates and income tax expense for the three month periods ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
(in thousands, except percentage amounts)	**2013**	**2012**
Effective tax rate	47.0%	46.9%
Provision for income taxes	$ 4,256	$ 6,372

Acquisitions

In January 2012, the Company purchased all of the shares of S&P Clever, for $58.1 million, subject to post-closing adjustments. S&P Clever manufactures and sells engineered materials to repair, strengthen and restore concrete, masonry and asphalt and has operations in Switzerland, Germany, Portugal, Poland, The Netherlands and Austria. Payments under the purchase agreement included cash payments of $57.5 million and contingent consideration of $0.6 million payable over a three-year period if sales goals are met. As a result of the acquisition, the Company has increased its presence in the infrastructure, commercial and industrial construction markets in Europe. The Company s measurement of assets acquired and liabilities assumed included cash and cash equivalents of $6.8 million, other current assets of $10.8 million, non-current assets of $53.4 million, current liabilities of $12.6 million and non-current liabilities of $0.2 million. Included in non-current assets is goodwill of $19.3 million, which was assigned to the European segment and is not deductible for tax purposes, intangible assets of $15.7 million, the amortization of which is not deductible for tax purposes and long-lived intangibles of $4.8 million related to in-progress product development, which will be amortized when the Company markets the product for sale. The weighted-average amortization period for the intangible assets is 9.8 years.

In March 2012, the Company purchased substantially all of the assets of CarbonWrap Solutions, L.L.C. (CarbonWrap) for $5.5 million, subject to post-closing adjustments. CarbonWrap develops fiber-reinforced polymer products primarily for infrastructure and transportation projects. Payments under the purchase agreement totaled $5.3 million in cash and contingent consideration of $0.2 million paid on resolution of specified post-closing contingencies to the principal officer of CarbonWrap, who is now employed by the Company. The Company s measurement included goodwill of $3.5 million, which was assigned to the North American segment and is deductible for tax purposes, and intangible assets of $1.7 million, which is subject to tax-deductible amortization. Net tangible assets consisting of accounts receivable, inventory, equipment and prepaid expenses accounted for the balance of the purchase price. The weighted-average amortization period for the intangible assets is 15.6 years.

In February 2013, the Company purchased certain assets relating to the TJ® ShearBrace (ShearBrace) product line of Weyerhaeuser NR Company, a Washington corporation (Weyerhaeuser), for $5.3 million in cash, subject to post-closing adjustments. The ShearBrace is a line of pre-fabricated shearwalls that will complement the Company s Strong-Wall shearwall, and is sold throughout North America. The Company s provisional measurement of assets acquired included goodwill of $2.6 million that has been assigned to the North American segment, and intangible assets of $1.9 million, both of which are subject to tax-deductible amortization. Net tangible assets consisting of inventory and equipment accounted for the balance of the purchase price.

Under the business combinations topic of the FASB ASC, the Company accounted for these acquisitions as business combinations and ascribed acquisition-date fair values to the acquired assets and assumed liabilities. Provisional fair value measurements were made in the first quarter of 2013 for acquired assets and assumed liabilities. Adjustments to those measurements may be made in subsequent periods, up to one year from the acquisition date, as information necessary to complete the analysis is obtained. Fair value of intangible assets was based on Level 3 inputs. The Company expects the measurement process for each acquisition to be finalized within a year of its acquisition date.

Pro-forma financial information is not presented as it would not be materially different from the information presented in the Condensed Consolidated Statements of Operations.

Recently Adopted Accounting Standards

In February 2013, the FASB issued an amendment to the comprehensive income guidance requiring reporting of the effect of significant reclassifications out of other comprehensive income on the respective lines in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures that provide additional information about these amounts. This amendment is effective for fiscal years beginning after December 15, 2012, and interim periods within those years. The implementation of this amended accounting guidance did not have a material effect on the Company s consolidated financial position and results of operations.

Recently Issued Accounting Standards

Other recent authoritative guidance issued by the FASB (including technical corrections to the ASC), the American Institute of Certified Public Accountants and the Securities and Exchange Commission did not or is not expected to have a material effect on the Company s consolidated financial statements.

2. Trade Accounts Receivable, Net

Trade accounts receivable consisted of the following:

(in thousands)	**At March 31, 2013**	**At March 31, 2012**	**At December 31, 2012**
Trade accounts receivable	$ 105,880	$ 110,133	$ 85,732
Allowance for doubtful accounts	(1,134)	(1,086)	(1,288)
Allowance for sales discounts and returns	(1,933)	(1,790)	(1,632)
	$ 102,813	$ 107,257	$ 82,812

3. Inventories

Inventories consisted of the following:

	At March 31,	**At December 31,**

(in thousands)	2013	2012	2012
Raw materials	$ 90,697	$ 72,616	$ 95,959
In-process products	18,118	22,226	16,878
Finished products	93,526	89,226	91,287
	$ 202,341	$ 184,068	$ 204,124

4. Property, Plant and Equipment, Net

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

(in thousands)	At March 31, 2013	At March 31, 2012	At December 31, 2012
Land	$ 30,364	$ 32,601	$ 32,068
Buildings and site improvements	173,923	165,085	174,187
Leasehold improvements	4,708	3,793	4,747
Machinery and equipment	213,865	211,042	214,222
	422,860	412,521	425,224
Less accumulated depreciation and amortization	(221,468)	(206,971)	(217,868)
	201,392	205,550	207,356
Capital projects in progress	9,618	3,910	6,096
	$ 211,010	$ 209,460	$ 213,452

The Company s vacant facility in Hungen, Germany, remained classified as an asset held for sale as of March 31, 2013, consistent with the classification at December 31, 2012. In the quarter ended March 31, 2013, the Company concluded that the carrying value of its Ireland facility, associated with the Europe segment, exceeded its net realizable value, and therefore recorded an impairment charge, within general and administrative expense, of $1.0 million, equal to the amount by which carrying value exceeds net estimated realizable value. See note 10.

Determining the fair value of the Ireland facility is a judgment involving estimates and assumptions. These estimates and assumptions include lease rates, operating costs and inflation factors used to calculate projected future cash flows and future economic and market conditions (Level 3 fair value inputs). The Company bases its fair value estimates on assumptions that it believes to be reasonable, but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

5. Goodwill and Intangible Assets, Net

Goodwill was as follows:

(in thousands)	At March 31, 2013	At March 31, 2012	At December 31, 2012
North America	$ 81,205	$ 77,606	$ 78,739
Europe	39,390	50,975	41,263
Asia/Pacific	1,987	1,975	1,979
Total	$ 122,582	$ 130,556	$ 121,981

Intangible assets, net, were as follows:

	At March 31, 2013		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
North America	$ 39,935	$ (13,313)	$ 26,622
Europe	26,429	(7,773)	18,656
Total	$ 66,364	$ (21,086)	$ 45,278

	At March 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
North America	$ 34,552	$ (14,304)	$ 20,248
Europe	28,953	(5,717)	23,236
Total	$ 63,505	$ (20,021)	$ 43,484

	At December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
North America	$ 37,992	$ (12,012)	$ 25,980
Europe	31,701	(7,083)	24,618
Total	$ 69,693	$ (19,095)	$ 50,598

Intangible assets consist primarily of customer relationships, patents, unpatented technology and non-compete agreements. Amortization expense for intangible assets during the three-month periods ended March 31, 2013 and 2012, totaled $2.0 million and $1.9 million, respectively.

At March 31, 2013, estimated future amortization of intangible assets was as follows:

(in thousands)	
Remaining nine months of 2013	$ 6,149
2014	8,047
2015	7,144
2016	6,860
2017	4,954
2018	2,879
Thereafter	9,245
	$ 45,278

The changes in the carrying amount of goodwill and intangible assets for the three months ended March 31, 2013, were as follows:

(in thousands)	Goodwill	Intangible Assets
Balance at December 31, 2012	$ 121,981	$ 50,598
Acquisitions	2,606	1,869
Reclassifications*	(696)	(4,369)
Amortization		(1,991)
Foreign exchange	(1,309)	(829)
Balance at March 31, 2013	$ 122,582	$ 45,278

* Measurement period adjustments related to finalizing accounting for acquisitions

6. Debt

The Company has revolving lines of credit with various banks in the United States and Europe. Total available credit at March 31, 2013, was $308.6 million, including revolving credit lines and an irrevocable standby letter of credit in support of various insurance deductibles.

The Company s primary credit facility is a revolving line of credit with $300.0 million in available credit. This credit facility will expire in July 2017. Amounts borrowed under this credit facility will bear interest at an annual rate equal to either, at the Company s option, (a) the rate for Eurocurrency deposits for the corresponding deposits of U.S. dollars appearing on Reuters LIBOR01screen page (the LIBOR Rate), adjusted for any reserve requirement in effect, plus a spread of 0.60% to 1.45%, determined quarterly based on the Company s leverage ratio (at March 31, 2013, the LIBOR Rate was 0.21%), or (b) a base rate, plus a spread of 0.00% to 0.45%, determined quarterly based on the Company s leverage ratio. The base rate is defined in a manner such that it will not be less than the LIBOR Rate. The Company will pay fees for standby letters of credit at an annual rate equal to the LIBOR Rate plus the applicable spread described above, and will pay market-based fees for commercial letters of credit. The Company is required to pay an annual facility fee of 0.15% to 0.30% of the available commitments under the credit agreement, regardless of usage, with the applicable fee determined on a quarterly basis based on the Company s leverage ratio. The Company was also required to pay customary fees as specified in a separate fee agreement between the Company and Wells Fargo Bank, National Association, in its capacity as the Agent under the credit agreement.

The Company s borrowing capacity under other revolving credit lines and a term note totaled $8.6 million at March 31, 2013. The other revolving credit lines and term note charge interest ranging from 1.011% to 7.25%, have maturity dates from August 2013 to September 2020, and had outstanding balances totaling $1.2 million at March 31, 2013. The Company had outstanding balances of $3.8 million and $0.2 million on March 31, 2012 and December 31, 2012, respectively. The Company was in compliance with its financial covenants at March 31, 2013.

7. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2012 Annual Report provides information concerning commitments and contingencies. From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The resolution of claims and litigation is subject to inherent uncertainty and could have a material adverse effect on the Company s financial condition, cash flows and results of operations.

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. In April 2013, the Court granted Haseko and the sub-contractors motion for leave to amend their cross-claims to allege a claim for negligent misrepresentation. 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 to 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 or results of operations.

Other

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 enbrittlement, 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, tools, anchors, adhesives and tool products. On occasion, some of the products that the Company sells have failed, although the Company has not incurred any material liability resulting from those failures. The Company attempts to avoid such failures by establishing and monitoring appropriate product specifications, manufacturing quality control procedures, inspection procedures and information on appropriate installation methods and conditions. The Company subjects its products to extensive testing, with results and conclusions published in Company catalogues and on its websites. Based on test results to date, the Company believes that, generally, if its products are appropriately selected, installed and used in accordance with the Company s guidance, they may be reliably used in appropriate applications.

8. Stock-Based Incentive Plans

The Company currently has one stock-based incentive plan, which incorporates and supersedes its two previous plans (see Note 1 Basis of Presentation *Accounting for Stock-Based Compensation*). Participants are granted stock-based awards only if the applicable Company-wide or profit-center operating goals, or both, established by the Compensation and Leadership Development Committee of the Board of Directors at the beginning of the year, are met. Certain participants may have additional goals based on strategic initiatives of the Company.

The fair value of each restricted stock unit award is estimated on the date of the award based on the closing market price of the underlying stock on the day preceding the date of the award. On February 6, 2013, 359,371 restricted stock units were awarded, including 9,975 awarded to the Company s independent directors, at an estimated value of $31.96 per share, based on the closing price on February 5, 2013. The restrictions on these awards generally lapse one quarter on the date of the award and one quarter on each of the first, second and third anniversaries of the date of the award.

The following table summarizes the Company s unvested restricted stock unit activity for the three months ended March 31, 2013:

Unvested Restricted Stock Units (RSUs)	**Shares (in thousands)**	**Weighted-Average Price**	**Aggregate Intrinsic Value * (in thousands)**
Outstanding at January 1, 2013	264	$ 33.23	
Awarded	359		
Vested	(169)		
Forfeited	(1)		
Outstanding at March 31, 2013	453	$ 32.45	$ 13,878
Outstanding and expected to vest at March 31, 2013	442	$ 32.45	$ 14,333

* The intrinsic value is calculated using the closing price per share of $30.61 as reported by the New York Stock Exchange on March 29, 2013.

Based on the market value on the award date, the total intrinsic value of vested restricted stock units during the three-month periods ended March 31, 2013 and 2012, was $5.5 million and $3.1 million, respectively.

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

No stock options were granted in 2012 or the first quarter of 2013. The following table summarizes the Company s stock option activity for the three months ended March 31, 2013:

Non-Qualified Stock Options	**Shares (in thousands)**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value * (in thousands)**
Outstanding at January 1, 2013	1,907	$ 31.58		
Exercised	(18)	27.34		
Forfeited	(372)	40.67		
Outstanding at March 31, 2013	1,517	$ 29.39		$ 2,177
Outstanding and expected to vest at March 31, 2013	1,491	$ 29.39	4.4	$ 2,149
Exercisable at March 31, 2013	832	$ 29.32	4.1	$ 1,404

* The intrinsic value represents the amount, if any, by which the fair market value of the underlying common stock exceeds the exercise price of the stock option, using the closing price per share of $30.61 as reported by the New York Stock Exchange on March 29, 2013.

The total intrinsic value of stock options exercised during the three month periods ended March 31, 2013 and 2012, was $0.1 million and $0.7 million, respectively.

A summary of the status of unvested stock options as of March 31, 2013, and changes during the three months ended March 31, 2013, are presented below:

Unvested Stock Options	**Shares (in thousands)**	**Weighted-Average Grant-Date Fair Value**
Unvested at January 1, 2013	826	$ 10.25
Vested	(140)	10.18
Forfeited	(1)	10.33
Unvested at March 31, 2013	685	$ 10.26

As of March 31, 2013, $15.0 million of total unrecognized compensation cost was related to unvested stock-based compensation arrangements under the 2011 Incentive Plan. The portions of this cost related to stock options, and restricted stock units awarded through January 2013, are expected to be recognized over a weighted-average period of 2.2 years.

9. Segment Information

The Company is organized into three reportable segments. The segments are defined by the regions where the Company s products are manufactured, marketed and distributed to the Company s customers. The three regional segments are the North American segment, comprising primarily the United States and Canada, the European segment, and the Asia/Pacific segment, comprising the Company s operations in China, Hong Kong, the South Pacific and the Middle East. These segments are similar in several ways, including the types of materials, the production processes, the distribution channels and the product applications.

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

	Three Months Ended March 31,			
(in thousands)		**2013**		**2012**
Net Sales				
North America	$	127,737	$	127,967
Europe		23,917		28,237
Asia/Pacific		2,644		2,372
Administrative and all other		237		158
Total	$	154,535	$	158,734
*Sales to Other Segments**				
North America	$	761	$	1,372
Europe		280		134
Asia/Pacific		4,136		3,724
Total	$	5,177	$	5,230
Income (Loss) from Operations				
North America	$	15,260	$	17,873
Europe		(4,180)		(2,372)
Asia/Pacific		(1,184)		(654)
Administrative and all other		(883)		(1,339)
Total	$	9,013	$	13,508

* The sales to other segments are eliminated on consolidation.

	At March 31,				At December 31,	
(in thousands)		**2013**		**2012**		**2012**
Total Assets						
North America	$	580,882	$	546,112	$	583,501
Europe		182,687		201,721		194,000
Asia/Pacific		29,303		27,916		30,455
Administrative and all other		78,675		91,262		82,366
Total	$	871,547	$	867,011	$	890,322

Cash collected by the Company s United States subsidiaries is routinely transferred into the Company s cash management accounts and, therefore, has been included in the total assets of Administrative and all other. Cash and cash equivalent balances in the Administrative and all other segment were $62.5 million, $87.4 million, and $91.9 million, as of March 31, 2013 and 2012, and December 31, 2012, respectively.

The following table illustrates how the Company s net sales are distributed by producfor the following periods:

(in thousands)	Three Months Ended March 31, 2013	2012
Wood Construction	$ 132,798	$ 137,779