SIMPSON MANUFACTURING CO INC /CA/
Form 10-Q
November 06, 2009

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: September 30, 2009

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 o 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 September 30, 2009: 49,302,460

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Simpson Manufacturing Co., Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, unaudited)

	September 30, 2009	September 30, 2008	December 31, 2008
ASSETS			
Current assets			
Cash and cash equivalents	$ 220,139	$ 163,857	$ 170,750
Trade accounts receivable, net	108,005	125,875	76,005
Inventories	178,237	251,647	251,878
Deferred income taxes	13,888	11,745	11,995
Assets held for sale	7,887	8,429	8,387
Other current assets	10,899	7,191	8,582
Total current assets	539,055	568,744	527,597
Property, plant and equipment, net	191,326	195,062	193,318
Goodwill	81,289	75,799	68,619
Intangible assets, net	31,885	22,376	23,453
Equity method investment			214
Other noncurrent assets	13,614	16,720	16,999
Total assets	$ 857,169	$ 878,701	$ 830,200
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Line of credit	$ 29	$ 629	$ 26
Trade accounts payable	29,638	46,113	21,675
Accrued liabilities	31,654	39,835	34,102
Income taxes payable	1,189	3,593	
Accrued profit sharing trust contributions	5,436	7,603	9,541
Accrued cash profit sharing and commissions	5,620	10,313	2,264
Accrued workers compensation	4,276	4,116	4,286
Total current liabilities	77,842	112,202	71,894
Long-term liabilities	9,019	10,607	9,280
Total liabilities	86,861	122,809	81,174
Commitments and contingencies (Note 8)			
Stockholders equity			
Common stock, at par value	493	486	490
Additional paid-in capital	144,199	130,032	136,867
Retained earnings	606,251	609,010	605,950
Accumulated other comprehensive income	19,365	16,364	5,719

Total stockholders equity		770,308		755,892		749,026
Total liabilities and stockholders equity	$	857,169	$	878,701	$	830,200

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 September 30,		Nine Months Ended September 30,	
	2008	**2009**	**2009**	**2008**
Net sales	$ 167,200	$ 219,823	$ 452,446	$ 606,742
Cost of sales	106,299	130,143	299,594	376,939
Gross profit	60,901	89,680	152,852	229,803
Operating expenses:				
Research and development and other engineering	4,971	5,662	14,997	16,375
Selling	15,563	21,323	48,440	63,264
General and administrative	19,351	25,514	59,828	67,155
	39,885	52,499	123,265	146,794
Income from operations	21,016	37,181	29,587	83,009
Loss in equity method investment, before tax			(214)	
Interest income, net		579	64	2,213
Income before income taxes	21,016	37,760	29,437	85,222
Provision for income taxes	8,258	14,398	14,405	33,126
Net income	$ 12,758	$ 23,362	$ 15,032	$ 52,096
Net income per common share				
Basic	$ 0.26	$ 0.48	$ 0.31	$ 1.07
Diluted	$ 0.26	$ 0.48	$ 0.31	$ 1.06
Cash dividends declared per common share	$ 0.10	$ 0.10	$ 0.30	$ 0.30
Number of shares outstanding				
Basic	49,195	48,612	49,066	48,593
Diluted	49,355	48,946	49,185	48,939

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 nine months ended September 30, 2008 and 2009, and three months ended December 31, 2008

(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, 2008	48,552	$ 485	$ 126,119	$ 571,499	$ 25,297	$ 723,400
Comprehensive income:						
Net income				52,096		52,096
Other comprehensive income:						
Translation adjustment, net of tax of $(317)					(8,933)	(8,933)
Comprehensive income						43,163
Stock options exercised	75	1	1,380			1,381
Stock compensation			2,309			2,309
Tax benefit of options exercised			(23)			(23)
Cash dividends declared on common stock, $0.30 per share				(14,585)		(14,585)
Common stock issued at $26.59 per share for stock bonus	9		247			247
Balance, September 30, 2008	48,636	486	130,032	609,010	16,364	755,892
Comprehensive income:						
Net income				1,838		1,838
Other comprehensive income:						
Translation adjustment, net of tax of $395					(10,645)	(10,645)
Comprehensive income						(8,807)
Stock options exercised	335	4	5,496			5,500
Stock compensation			940			940
Tax benefit of options exercised			399			399
Cash dividends declared on common stock, $0.10 per share				(4,898)		(4,898)
Balance, December 31, 2008	48,971	490	136,867	605,950	5,719	749,026
Comprehensive income:						
Net income				15,032		15,032
Other comprehensive income:						
Translation adjustment, net of tax of ($33)					13,646	13,646
Comprehensive income						28,678
Stock options exercised	321	3	6,351			6,354
Stock compensation			1,176			1,176
Tax benefit of options exercised			(495)			(495)
Cash dividends declared on common stock, $0.30 per share				(14,731)		(14,731)
Common stock issued at $27.76 per share for stock bonus	10		300			300
Balance, September 30, 2009	49,302	$ 493	$ 144,199	$ 606,251	$ 19,365	$ 770,308

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)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities		
Net income	$ 15,032	$ 52,096
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of assets	236	(58)
Depreciation and amortization	22,093	22,634
Deferred income taxes	(1,597)	(505)
Noncash compensation related to stock plans	1,554	2,715
Loss in equity method investment	214	
Excess tax benefit of options exercised	(283)	(118)
Provision for doubtful accounts	456	7
Provision for obsolete inventory	788	
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	(27,552)	(36,078)
Inventories	77,883	(27,616)
Trade accounts payable	6,182	15,679
Income taxes payable	2,929	6,206
Accrued profit sharing trust contributions	(4,178)	(991)
Accrued cash profit sharing and commissions	3,279	6,223
Other current assets	(4,628)	(858)
Accrued liabilities	(4,345)	(454)
Other long-term liabilities	2,529	631
Accrued workers compensation	(11)	
Other noncurrent assets	(1,844)	(2,931)
Net cash provided by operating activities	88,737	36,582
Cash flows from investing activities		
Capital expenditures	(12,452)	(10,326)
Proceeds from sale of capital assets	930	2,674
Asset acquisitions, net of cash acquired	(23,670)	(34,028)
Net cash used in investing activities	(35,192)	(41,680)
Cash flows from financing activities		
Line of credit borrowings	1,527	3,695
Repayment of debt and line of credit borrowings	(1,527)	(4,101)
Issuance of common stock	6,354	1,381
Excess tax benefit of options exercised	283	118
Dividends paid	(14,702)	(14,576)
Net cash used in financing activities	(8,065)	(13,483)
Effect of exchange rate changes on cash	3,909	(3,704)
Net increase (decrease) in cash and cash equivalents	49,389	(22,285)
Cash and cash equivalents at beginning of period	170,750	186,142
Cash and cash equivalents at end of period	$ 220,139	$ 163,857
Noncash activity during the period		
Noncash capital expenditures	$	$ 135

Dividends declared but not paid	$	4,919	$	4,863
Issuance of Company s common stock for compensation	$	300	$	247
Noncash asset acquisition	$		$	1,457

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, 2008 (the 2008 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.

Subsequent Events

The Company has evaluated the financial statements for subsequent events through November 6, 2009, the date of the filing of this Form 10-Q. See Note 11 Subsequent Events.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete, net of applicable provision for discounts, returns and incentives, whether actual or estimated based on the Company s experience. This generally occurs when products are shipped to the customer in accordance with the sales agreement or purchase order, ownership and risk of loss pass to the customer, collectibility is reasonably assured and pricing is fixed or determinable. The Company s general shipping terms are F.O.B. shipping point, where title is transferred and revenue is recognized when the products are shipped to customers. When the Company sells F.O.B. destination point, title is transferred and the Company recognizes revenue on delivery or customer acceptance, depending on terms of the sales agreement. Service sales, representing after-market repair and maintenance, engineering activities and software sales and service, 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 Income Per Common Share

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

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

(in thousands, except per-share amounts)	Three Months Ended, September 30, 2009 Income	Share	Per Shares	Three Months Ended, September 30, 2008 Income	Shares	Per Share
Basic EPS						
Income available to common stockholders	$ 12,758	49,195	$ 0.26	$ 23,362	48,612	$ 0.48
Effect of Dilutive Securities						
Stock options		160			334	
Diluted EPS						
Income available to common stockholders	$ 12,758	49,355	$ 0.26	$ 23,362	48,946	$ 0.48

	Nine Months Ended, September 30, 2009 Income	Share	Per Shares	Nine Months Ended, September 30, 2008 Income	Share	Per Shares
Basic EPS						
Income available to common stockholders	$ 15,032	49,066	$ 0.31	$ 52,096	48,593	$ 1.07
Effect of Dilutive Securities						
Stock options		119			346	(0.01)
Diluted EPS						
Income available to common stockholders	$ 15,032	49,185	$ 0.31	$ 52,096	48,939	$ 1.06

Anti-dilutive shares attributable to outstanding stock options were excluded from the calculation of diluted net income per share. For the three months ended September 30, 2009 and 2008, 0.9 million shares and 1.0 million shares, respectively, subject to stock options were anti-dilutive. For the nine months ended September 30, 2009 and 2008, 1.0 million shares and 1.1 million shares, respectively, subject to stock options were anti-dilutive.

Accounting for Stock-Based Compensation

The Company maintains two stock option plans under which it may grant incentive stock options and non-qualified stock options, although the Company has granted only non-qualified stock options under these plans. The Simpson Manufacturing Co., Inc. 1994 Stock Option Plan (the 1994 Plan) is principally for the Company s employees, and the Simpson Manufacturing Co., Inc. 1995 Independent Director Stock Option Plan (the 1995 Plan) is for its independent directors. The Company generally grants options under each of the 1994 Plan and the 1995 Plan once each year. The exercise price per share of each option granted in February 2009, February 2008 and April 2008 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 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 is at the fair market value on the date specified in the 1995 Plan. Options vest and expire according to terms established at the grant date. There were no options granted under the 1995 Plan in 2009 or 2008.

Under the 1994 Plan, no more than 16 million shares of the Company s common stock may be sold (including shares already sold) pursuant to all options granted under the 1994 Plan. Under the 1995 Plan, no more than 320 thousand shares of common stock may be sold (including shares already sold) pursuant to all options granted under the 1995 Plan. Shares of common stock issued on exercise of stock options under both of the plans are registered under the Securities Act of 1933. Options granted under the 1994 Plan typically vest evenly over the requisite service period of four years and have a term of seven years. The vesting of options granted under the 1994 Plan will be accelerated if the grantee ceases to be employed by the Company after reaching age 60 or if there is a change in control of the Company. Options granted under the 1995 Plan are fully vested on the date of grant.

The following table represents the Company s stock option activity for the three and nine months ended September 30, 2009 and 2008:

(in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Stock option expense recognized in operating expenses	$ 386	$ 772	$ 1,231	$ 2,473
Tax benefit of stock option expense in provision for income taxes	131	305	413	975
Stock option expense, net of tax	$ 255	$ 467	$ 818	$ 1,498
Fair value of shares vested	$ 385	$ 769	$ 1,176	$ 2,309
Proceeds to the Company from the exercise of stock options	$ 5,228	$ 640	$ 6,354	$ 1,381
Tax benefit from exercise of stock options, including windfall (shortfall) tax benefits	$ (251)	$ 159	$ (495)	$ 272

	At September 30, 2009	At September 30, 2008
Stock option cost capitalized in inventory	$ 46	$ 88

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 were granted.

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

Fair Value of Financial Instruments

As of September 30, 2009, the Company s investments consisted of only United States Treasury securities and money market funds aggregating $114.0 million, which are maintained in cash equivalents and are carried at cost, approximating fair value, based on Level 1 inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, as defined in the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards CodificationTM (ASC).

Income Taxes

In general, the Company is required to use an estimated annual effective tax rate to measure the tax benefit or tax expense recognized in an interim period. The income tax expense for the first three quarters of 2009, however, has been computed based on those quarters as discrete periods due to the uncertainty regarding the Company s ability to reliably estimate pre-tax income for the remainder of the year. The effective tax rate was 19.4% in the first quarter of 2009, which, as a result of the loss before taxes in the first quarter of 2009, resulted in income tax benefit of $2.0 million. The effective tax rate was 43.3% in the second quarter of 2009 which resulted in income tax expense of $8.2 million. The effective tax rate was 39.3% in the third quarter of 2009 which resulted in income tax expense of $8.3 million. The Company cannot reliably estimate pre-tax income for the remainder of 2009 or for the full year, primarily due to the continued uncertainty in the construction markets in which the Company operates. The income tax provision for the three months and nine months ended September 30, 2008, was calculated using estimated annual effective tax rates.

Acquisitions

Effective January 1, 2009, the Company adopted the revised business combinations guidance codified as the Business Combinations topic of the FASB ASC. This revised guidance requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users the information needed to evaluate and understand the nature and financial effect of the business combination. The revised business combination guidance applies to all transactions or other events in which the Company obtains control of one or more businesses, including combinations achieved without the transfer of consideration, such as by contract alone or through the lapse of minority veto rights. This guidance applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009, except that resolution of certain tax contingencies and adjustments to valuation allowances related to business combinations, which previously were adjusted to goodwill, will be adjusted to income tax expense for all such adjustments after January 1, 2009, regardless of the date of the original business combination. While this guidance did not have a material effect on the Company s consolidated financial statements on adoption, the effects on future periods will depend on the nature and significance of future business combinations subject to this guidance.

In January 2009, the Company s subsidiary, Simpson Strong-Tie Company Inc., acquired the business of RO Design Corp, a Florida corporation doing business as DeckTools, which licenses deck design and estimation software. The software provides professional deck builders, home centers and lumber yards a simple, graphics-driven solution for designing decks and estimating material and labor costs for the project. Payments under the purchase agreement total $4.0 million in cash, including $2.5 million to be paid in the future, which will be treated as compensation expense to the principal officer of RO Design Corp, who is now employed by the Company. As a result of the acquisition, the Company recorded goodwill of $0.4 million and intangible assets subject to amortization of $1.1 million in the connector products segment.

In April 2009, the Company s subsidiary, Simpson Strong-Tie Europe EURL, purchased the equity of Agence Internationale Commerciale et Industrielle, S.A.S. (Aginco). Aginco manufactures a line of high-quality builder products and distributes them in France. The purchase price (subject to post-closing adjustments) was $21.9 million in cash. Through this acquisition, the Company increased its presence in the connector market in France. The Company believes that the additional presence will further its position in the construction products market. This factor contributed to a purchase price in excess of fair market value of Aginco s net tangible and intangible assets acquired, and as a result, the Company has recorded goodwill in connection with the transaction of $12.1 million and intangible assets subject to amortization of $7.4 million in the connector products segment. Net tangible assets, including machinery and equipment, inventory and trade accounts receivable, accounted for the balance of the purchase price.

The Company has not finalized the purchase price allocation for the RO Design Corp and Aginco acquisitions, as the Company is still obtaining information and analyzing the fair value of certain acquired assets and liabilities. The results of operations of the businesses acquired in 2009 are included in the Company s consolidated results of operations since the dates of the acquisitions and, for periods prior to 2009, were not material to the Company. Accordingly, pro forma results of operations have not been presented.

Recently Issued Accounting Standards

In April 2009, the FASB issued new guidance to the Business Combinations topic of the FASB ASC, which applies to all assets and liabilities assumed in a business combination that would be within the scope of the Contingencies topic of the FASB ASC, if not acquired in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in the Business Combinations topic of the FASB ASC. An acquirer must recognize at fair value, at the acquisition date, an asset or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value of an asset acquired or liability assumed in a business combination that arises from a contingency cannot be determined during the measurement

period, an asset or liability must be recognized at the acquisition date if both information is available before the end of the measurement period indicates that it is probable that an asset existed or that a liability had been incurred at the acquisition date and the amount of the assets or liability can be reasonably estimated. This new guidance became effective for the Company for business combinations for which the acquisition date was on or after January 1, 2009, and has not and is not currently expected to have a material effect on the Company s consolidated financial statements.

In May 2009, the FASB issued guidance codified in the Subsequent Events topic of the FASB ASC, which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The subsequent events guidance requires the disclosure of the date through which an entity has evaluated subsequent events and is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the new disclosure requirements in its June 30, 2009, condensed consolidated financial statements and the adoption did not have a material effect on the Company s consolidated financial statements.

In June 2009, the FASB issued guidance codified as the Generally Accepted Accounting Principles topic of the FASB ASC. The ASC is the sole source of authoritative GAAP for companies that are registered under section 12 of the Securities Exchange Act of 1934. This guidance was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the ASC became non-authoritative. This guidance only required a change in disclosure and did not affect the Company s consolidated financial statements.

In June 2009, the FASB issued a new standard, not yet codified in the FASB ASC, amending the accounting and disclosure requirements for the consolidation of variable interest entities. This standard clarifies the characteristics that identify a variable interest entity (VIE) and changes how a reporting entity identifies a primary beneficiary that would consolidate the VIE from a quantitative risks and rewards calculation to a qualitative approach based on which variable interest holder has controlling financial interest and the ability to direct the most significant activities that affect the VIE s economic performance. This standard requires the primary beneficiary assessment to be performed on a continuous basis and also requires additional disclosures about an entity s involvement with the VIE, restrictions on the VIE s assets and liabilities that are included in the reporting entity s consolidated balance sheet, significant risk exposures due to the entity s involvement with the VIE, and how its involvement with a VIE affects the reporting entity s consolidated financial statements. It is effective for fiscal years beginning after November 15, 2009. The Company will adopt this accounting standard on January 1, 2010, and has not yet determined the effect, if any, on its consolidated financial statements.

2. Trade Accounts Receivable, Net

Trade accounts receivable consist of the following:

(in thousands)	**At September 30, 2009**	**At September 30, 2008**	**At December 31, 2008**
Trade accounts receivable	$ 114,942	$ 130,919	$ 81,929
Allowance for doubtful accounts	(4,759)	(2,222)	(4,368)
Allowance for sales discounts and returns	(2,178)	(2,822)	(1,556)
	$ 108,005	$ 125,875	$ 76,005

3. Inventories

Inventories consist of the following:

(in thousands)	At September 30, 2009	At September 30, 2008	At December 31, 2008
Raw materials	$ 61,387	$ 96,021	$ 92,638
In-process products	22,546	29,246	26,371
Finished products	94,304	126,380	132,869
	$ 178,237	$ 251,647	$ 251,878

4. Property, Plant and Equipment, Net

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

(in thousands)	At September 30, 2009	At September 30, 2008	At December 31, 2008
Land	$ 23,709	$ 22,856	$ 23,989
Buildings and site improvements	141,233	132,525	135,992
Leasehold improvements	3,859	4,440	4,287
Machinery and equipment	227,204	220,448	219,641
	396,005	380,269	383,909
Less accumulated depreciation and amortization	(211,944)	(192,430)	(193,639)
	184,061	187,839	190,270
Capital projects in progress	7,265	7,223	3,048
	$ 191,326	$ 195,062	$ 193,318

The Company s vacant facility in San Leandro, California, remained classified as an asset held for sale as of September 30, 2009, consistent with the classification at December 31, 2008. This facility is associated with the connector segment.

5. Investments

Equity Method Investment

At September 30, 2009, the Company had a 35% equity interest in Keymark Enterprises, LLC (Keymark), for which the Company accounts using the equity method. Keymark develops software that assists in designing and engineering residential structures. The Company s relationship with Keymark includes the specification of the Company s products in the Keymark software. The Company has no obligation to make any additional capital contributions to Keymark. In October 2009, the Company obtained an additional 5.6% equity interest in Keymark, bringing its total equity interest to 40.6%. See Note 11.

6. Goodwill and Intangible Assets, Net

Goodwill by segment was as follows:

	At September 30,		At December 31,
(in thousands)	**2009**	**2008**	**2008**
Connector products	$ 76,854	$ 68,239	$ 64,205
Venting products	4,435	7,560	4,414
Total	$ 81,289	$ 75,799	$ 68,619

Intangible assets, net, by segment was as follows:

	At September 30, 2009		
(in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Connector products	$ 45,352	$ 15,715	$ 29,637
Venting products	3,291	1,043	2,248
Total	$ 48,643	$ 16,758	$ 31,885

	At September 30, 2008		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Connector products	$ 34,533	$ 12,157	$ 22,376
Venting products			
Total	$ 34,533	$ 12,157	$ 22,376

	At December 31, 2008		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Connector products	$ 32,669	$ 11,780	$ 20,889
Venting products	2,962	398	2,564
Total	$ 35,631	$ 12,178	$ 23,453

Intangible assets consist primarily of customer relationships, patents, unpatented technology and non-compete agreements. Amortization expense for intangible assets during the three months ended September 30, 2009 and 2008, was $1.6 million and $1.2 million, respectively, and during the nine months ended September 30, 2009 and 2008, was $4.9 million and $3.5 million, respectively.

At September 30, 2009, estimated future amortization of intangible assets was as follows:

(in thousands)	
Final three months of 2009	$ 1,386
2010	4,708
2011	4,670
2012	3,795
2013	2,855
2014	2,729
Thereafter	11,742
	$ 31,885

The changes in the carrying amount of goodwill and intangible assets from December 31, 2008, to September 30, 2009, were as follows:

(in thousands)	**Goodwill**	**Intangible Assets**
Balance at December 31, 2008	$ 68,619	$ 23,453
Acquisitions	10,209	8,493
Amortization		(4,870)
Reclassifications	(4,144)	3,891
Adjustments due to recognition of deferred tax assets	3,706	
Foreign exchange	2,899	918
Balance at September 30, 2009	$ 81,289	$ 31,885

7. Debt

Outstanding debt at September 30, 2009 and 2008, and December 31, 2008, and the available lines of credit at September 30, 2009, consisted of the following:

(dollar amounts in thousands)	**Available Credit at September 30, 2009**	**Debt Outstanding at September 30, 2009**	**Debt Outstanding at September 30, 2008**	**at December 31, 2008**
Revolving line of credit, interest at LIBOR plus 0.27% (at September 30, 2009, LIBOR plus 0.27% was 0.51%), expires October 2012, commitment fees payable at the annual rate of 0.08% on the unused portion of the facility	$ 200,000	$	$	$
Revolving line of credit, interest at the bank s base rate plus 3% (at September 30, 2009, the bank s base rate plus 3% was 3.50%), expires December 2009	403			
Revolving lines of credit, interest rates between 1.16% and 3.51%	4,660	29	629	26
Line of credit		$ 29	$ 629	$ 26
Available credit	$ 205,063			

8. Commitments and Contingencies

Note 9 to the consolidated financial statements in the 2008 Annual Report provides information concerning commitments and contingencies. From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The resolution of claims and litigation is subject to inherent uncertainty and could have a material adverse effect on the Company s financial condition, cash flows and results of operations.

The Company s policy with regard to environmental liabilities is to accrue for future environmental assessments and remediation costs when information becomes available that indicates that it is probable that the Company is liable for any related claims and assessments and the amount of the liability is reasonably estimable. The Company does not believe that these matters will have a material adverse effect on the Company s financial condition, cash flows or results of operations. The Company has completed its environmental remediation at its San Leandro, California, facility.

Corrosion, hydrogen enbrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations, misuse, design and assembly flaws, environmental conditions or other factors can contribute to failure of fasteners, connectors, tools and venting products. On occasion, some of the fasteners and connectors that the Company sells have failed, although the Company has not incurred any material liability resulting from those failures. The Company attempts to avoid such failures by establishing and monitoring appropriate product specifications, manufacturing quality control procedures, inspection procedures and information on appropriate installation methods and conditions. The Company subjects its products to extensive testing, with results and conclusions published in Company catalogues and on its websites. Based on test results to date, the Company believes that, generally, if its products are appropriately selected, installed and used in accordance with the Company s guidance, they may be reliably used in appropriate applications.

Three lawsuits (the Cases) have been filed against the Company in the Hawaii First Circuit Court: *Kai et al. v. Haseko Homes, Inc., Haseko Construction, Inc. and Simpson Manufacturing, Inc.*, Case No. 09-1-1476 RAT (Case 1); *Ke Noho Development, LLC v. Simpson Strong-Tie Company, Inc., and Honolulu Wood Treating Co., LTD.*, Case No. 09-1-1491-06 SSM (Case 2); and *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). Case 1 was filed on June 26, 2009. Cases 2 and 3 were filed on June 30, 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 appears to have been voluntarily dismissed, although the Company has been informed that Case 1 will be re-filed. Case 1 has not been served on the Company. 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 2 has not been served on the Company. 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 3 is the only Case that has been served on the Company. 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. The Company is currently investigating 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 for any property damage allegedly suffered and the extent of such liability, if any, are unknown. 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. The Company intends to defend itself vigorously in connection with the Cases.

9. Stock Option Plans

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

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

Black-Scholes option pricing model assumptions for options granted in 2009 and 2008 are as follows:

Number of Options Granted (in thousands)	Grant Date	Risk-Free Interest Rate	Dividend Yield	Expected Life	Volatility	Exercise Price	Weighted Average Fair Value
1994 Plan							
24	02/23/09	2.08%	2.48%	6.5 years	30.9%	$ 16.10	$ 4.06
29	02/04/09	2.17%	1.88%	6.5 years	30.9%	$ 21.25	$ 5.86
14	04/23/08	3.15%	1.55%	6.0 years	27.1%	$ 25.74	$ 6.92
40	02/13/08	2.90%	1.68%	6.0 years	27.1%	$ 23.78	$ 6.16

No options were granted under the 1995 Plan in 2009 or 2008.

The following table summarizes the Company s stock option activity for the nine months ended September 30, 2009:

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, 2009	2,250	$ 29.70		
Granted	53	18.92		
Exercised	(321)	19.79		
Forfeited	(108)	36.46		
Outstanding at September 30, 2009	1,874	$ 30.70	2.3	$ 1,075
Outstanding and expected to vest at September 30, 2009	1,865	$ 30.72	2.3	$ 1,050
Exercisable at September 30, 2009	1,699	$ 30.80	2.1	$ 746

* 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 option, using the closing price per share of $25.26 as reported by the New York Stock Exchange on September 30, 2009.

The total intrinsic value of options exercised during the nine months ended September 30, 2009 and 2008, was $2.3 million and $0.7 million, respectively.

A summary of the status of unvested options as of September 30, 2009, and changes during the nine months ended September 30, 2009, are presented below:

Unvested Options	**Shares (in thousands)**		**Weighted-Average Grant-Date Fair Value**
Unvested at January 1, 2009	258	$	11.58
Granted	53		5.04
Vested	(131)		12.05
Forfeited	(5)		13.24
Unvested at September 30, 2009	175	$	9.22

As of September 30, 2009, $1.4 million of total unrecognized compensation cost was related to unvested share-based compensation arrangements under the 1994 Plan. This cost is expected to be recognized over a weighted-average period of 1.1 years. Options granted under the 1995 Plan are fully vested and are expensed on the date of grant.

10. Segment Information

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

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

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
(in thousands)		**2008**		**2009**		**2008**		**2009**
Net Sales								
Connector products	$	150,085	$	192,450	$	411,426	$	552,332
Venting products		17,115		27,373		41,020		54,410
Total	$	167,200	$	219,823	$	452,446	$	606,742
Income from Operations								