SIMPSON MANUFACTURING CO INC /CA/
Form 10-K
March 02, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2014
OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .
Commission file number: 1-13429
Simpson Manufacturing Co., Inc.
(Exact name of registrant as specified in its charter)

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

5956 W. Las Positas Blvd., Pleasanton, CA 94588
(Address of principal executive offices)
Registrant’s telephone number, including area code: (925) 560-9000
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No ý
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 ý 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 ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]
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 ý
As of June 30, 2014, there were outstanding 48,973,019 shares of the registrant's common stock, par value $0.01, which is the only outstanding class of common or voting stock of the registrant. The aggregate market value of the shares of common stock held by nonaffiliates of the registrant (based on the closing price for the common stock on the New York Stock Exchange on June 30, 2014) was approximately $1,502,313,863. As of February 26, 2015, 49,295,157 shares of the registrant's common stock were outstanding.
Documents Incorporated by Reference
The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held April 21, 2015, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014.

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This document contains forward-looking statements, based on numerous assumptions and subject to risks and uncertainties, such as statements regarding sales, gross profit margin, stock-based compensation, capital expenditures, amortization or effective tax rates at any future time or for any future period. Although the Company believes that the forward-looking statements are reasonable, it does not and cannot give any assurance that its beliefs and expectations will prove to be correct. Many factors could significantly affect the Company's operations and cause the Company's actual results to be substantially different from the Company's expectations. Those factors include, but are not limited to: (i) general economic and construction business conditions; (ii) customer acceptance of the Company's products; (iii) relationships with key customers; (iv) materials and manufacturing costs; (v) the financial condition of customers, competitors and suppliers; (vi) technological developments; (vii) increased competition; (viii) changes in capital and credit markets; (ix) governmental and business conditions in countries where the Company's products are manufactured and sold; (x) changes in trade regulations; (xi) the effect of acquisition activity; (xii) changes in the Company's plans, strategies, objectives, expectations or intentions; and (xiii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results might differ materially from results suggested by any forward-looking statements in this report. The Company does not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise. See "Item 1A — Risk Factors."

PART I

Item 1. Business.

Background

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

The Company is organized into three operating segments consisting of the North America, Europe and Asia/Pacific segments. The North America segment includes operations primarily in the United States and Canada. The Europe segment includes operations primarily in France, the United Kingdom, Germany, Denmark, Switzerland, Portugal and Poland. The Asia/Pacific segment includes operations primarily in China, Hong Kong, Thailand, Australia, New Zealand, South Africa and the Middle East. These segments are similar in several ways, including similarities in the products manufactured and distributed, the types of materials used, the production processes, the distribution channels and the product applications. See Note 13 to the Company's Consolidated Financial Statements for information regarding the assets and performance of each of the Company's operating segments. Also see "Item 1A — Risk Factors."

Simpson Strong-Tie's wood construction products are typically made of steel and are used primarily to strengthen, support and connect wood joints in residential and commercial construction and DIY projects. SST's wood construction products enhance the safety and durability of the structures in which they are installed and can save time and labor costs. SST's wood construction products contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from commercial and residential building, to deck construction, to DIY projects. SST produces and markets over 13,000 standard and custom wood construction products.

Simpson Strong-Tie's concrete construction products are composed of various materials including steel, chemicals and carbon fiber. They are used primarily to strengthen, anchor, support, repair and connect joints in residential and commercial construction and DIY projects used to repair, protect and strengthen concrete, brick or mortar structures. SST's concrete construction products enhance the safety and durability of the structures in which they are installed, can save time and labor costs and contribute to structural integrity and resistance to seismic, wind and other forces. Applications range from industrial, commercial, infrastructure and residential structures, to DIY projects. SST produces and markets over 2,000 standard and custom concrete construction products.

Simpson Strong-Tie emphasizes continuous new product development and often obtains patent protection for its new products. SST's products are marketed in all 50 states of the United States and in Europe, Canada, Asia, Australia, New Zealand, Mexico and several countries in Central and South America, Africa and the Middle East. SST's products are distributed to home centers, through wholesale distributors, to contractors, to dealers and to original equipment manufacturers ("OEMs"). SST operates

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manufacturing, warehouse, sales and sourcing or quality assurance facilities in California, Arizona, Texas, Ohio, Florida, Connecticut, Illinois, Washington, Tennessee, Minnesota, North Carolina, Maryland, Massachusetts, Missouri, British Columbia, Ontario, England, France, Denmark, Germany, Scotland, Poland, Czech Republic, Switzerland, Portugal, The Netherlands, Austria, Hong Kong, Australia, Dubai, China, Taiwan, Thailand, New Zealand, Vietnam, South Africa and Chile.

Simpson Strong-Tie has developed and uses automated manufacturing processes. Its innovative manufacturing systems and techniques have allowed it to control manufacturing costs, while developing both new products and products that meet customized requirements and specifications. SST's development of specialized manufacturing processes has also permitted increased operating flexibility and enhanced product design innovation. The Company has 22 manufacturing locations in the United States, Canada, France, Denmark, Germany, Switzerland, Poland, Portugal, China and England.

Industry and Market Trends

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

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

Natural disasters throughout the world have focused attention on safety concerns relating to the structural integrity of homes and other buildings. The 2011 earthquake in Fukushima, Japan, and the resulting tsunami, the 2011 earthquake in Christchurch, New Zealand, the 2010 earthquakes off the coast of Chile and in Haiti, the 1995 earthquake in Kobe, Japan, the 1994 earthquake in Northridge, California, the 1989 Loma Prieta earthquake in Northern California, hurricanes Hugo in 1989 and Andrew in 1992, a series of hurricanes in 2004 and 2005, including Katrina, in the southeastern United States, the 2011 Joplin, Missouri, tornado, Hurricane Sandy in the Northeast in 2012 and other cataclysmic natural disasters damaged and destroyed innumerable homes and other buildings, resulting in heightened consciousness of the fragility of some of those structures.

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

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

cases, SST uses sophisticated software to facilitate the design and marketing of its SST product systems.

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

Simpson Strong-Tie continues to support its distribution through home centers throughout the United States. Compared to previous years, SST's sales to home centers increased in 2014 but declined in 2013 and 2012. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

Simpson Strong-Tie's principal markets are in the building construction industry. That industry is subject to significant volatility due to real estate market cycles, fluctuations in interest rates, the availability, or lack thereof, of credit to builders, developers and consumers, inflation rates, weather, and other factors and trends. The world-wide recession and the decline in residential

construction that began in 2007 reduced the demand for SST's products. In recent years, there has been a slow economic recovery with corresponding increases in residential construction. See "Item 1A — Risk Factors."

Business Strategy

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

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

Simpson Strong-Tie seeks to expand its product and distribution coverage through several channels:

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

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

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

Dealers. In some markets, Simpson Strong-Tie sells its products directly to lumber dealers and cooperatives.

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

While Simpson Strong-Tie is expanding its established facilities outside of the United States to increase its presence and sales in these markets, sales of some products may relate primarily to certain regions. For example, sales of SST's

line of shearwalls and steel moment frames are concentrated mostly in the western region of the United States, because their use is primarily intended to resist the effects of seismic forces. Since 1993, SST —

- has established operations in the United Kingdom,
- opened manufacturing, warehouse and distribution facilities in western Canada, and the Midwest, Northeast, and eastern seaboard regions of the United States,
- purchased anchor products manufacturers in Illinois, eastern Canada and France and connector product manufacturers in France, Denmark, Germany and Canada,
- acquired the assets of a leading manufacturer and distributor of screw fastening systems and collated screws with manufacturing and distribution operations in Tennessee and distribution in Canada, Europe, Australia and New Zealand, and acquired a manufacturer in Germany,

- acquired a manufacturer and distributor of stainless steel fasteners in Maryland, and consolidated its operations into the Company's Tennessee facility,
- built a manufacturing facility in China and opened sales offices in Hong Kong, Beijing, Shanghai and Dubai for distribution in Asia and the Middle East,
- acquired a software company that licenses deck design and estimation software,
- acquired software assets used by the Company's customers in designing and engineering residential structures,
- acquired a manufacturer of truss plates in North Carolina,
- acquired a Maryland manufacturer of construction products and systems to repair, protect and strengthen concrete,
- acquired a manufacturer of engineered materials for repair, strengthening and restoration of concrete, asphalt and masonry construction with manufacturing and sales offices in Switzerland, Poland and Portugal and sales offices in Austria, Germany and The Netherlands, and
- acquired manufacturing assets used by the Company to produce shear walls.

Simpson Strong-Tie's European investments have established a presence in the European Community through acquisition of companies with existing customer bases and through servicing United States-based customers operating in Europe. SST also distributes connector, anchor and epoxy products in Mexico, Chile, Australia, New Zealand, Asia, South Africa and the Middle East. SST intends to continue to pursue and expand operations both inside and outside of the United States (see Note 13 to the Company's Consolidated Financial Statements).

A Simpson Strong-Tie goal is to manufacture and warehouse its products in geographic proximity to its markets to provide availability and rapid delivery of products to customers and prompt response to customer requests for specially designed products and services. With respect to the DIY and dealer markets, SST's strategy is to keep the customer's retail stores continuously stocked with adequate supplies of the full line of SST's products that those stores carry. In some cases, SST manages its inventory to help assure continuous product availability. Most customer orders are filled within a few days. High levels of manufacturing automation and flexibility allow SST to maintain its quality standards while continuing to provide prompt delivery.

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

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

Products

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

The wood construction products include connectors, truss plates, fastening systems and lateral systems. Connectors are prefabricated metal products that attach wood, concrete, masonry or steel together. The metal connectors for wood can join solid sawn lumber, glue-laminated beams, engineered wood, structural composite lumber and plated trusses. Specialty structural connectors have also been developed for cold-formed steel construction. Connectors are essential

for tying construction elements together and create safer and stronger buildings. Integrated Component Systems is the name of Simpson Strong-Tie's line of truss connector plates and software. Truss plates are toothed metal plates that join wood members together to form a truss. SST is developing sophisticated software for building component manufacturers to model and design trusses and then select the appropriate SST truss plates to work with the design. The fastener line includes coated or stainless steel hand drive nails and screws in addition to stainless steel collated nails and staples. SST also offers a line of proprietary structural screws used to join plies of wood together or metal connectors to wood. Complimenting these products is the Quik Drive auto-feed screw driving system used in numerous applications such as decking, subfloors, drywall and roofing. SST's lateral resistive systems are assemblies used to resist earthquake or wind forces and include Strong-Wall Shearwalls, ShearBrace, Anchor Tiedown Systems ("ATS"), Uplift Restraint Systems ("URS"), and Ordinary and Special steel moment frames.

Simpson Strong-Tie's concrete construction products are used for concrete, masonry and steel construction and for concrete repair, protection and strengthening. SST's concrete construction anchor products include adhesives, mechanical anchors, carbide drill

bits and powder-actuated pins and tools used for numerous applications of anchoring or attaching elements onto concrete, brick, masonry and steel. SST's concrete construction repair, protection and strengthening products include grouts, coatings, sealers, mortars, fiberglass and fiber-reinforced polymer systems and asphalt products. These products are sold in all segments of the Company worldwide.

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

New Product and Software Development

Simpson Strong-Tie commits substantial resources to new product development. The majority of SST’s products have been developed through its internal research and development program. SST’s research and development expense for the three years ended December 31, 2014, 2013 and 2012, was $11.2 million, $10.7 million, and $11.5 million, respectively. SST believes it is the only United States manufacturer with the capability to test multi-story wall systems, thus enabling full scale testing rather than analysis alone to prove system performance. SST engineering, sales, product management, and marketing teams work together with architects, engineers, building inspectors, code officials and customers in the new product development process.

Simpson Strong-Tie’s product research and development is based largely on needs that customers communicate to SST and on SST’s strategic initiatives to develop new markets or product lines. SST’s strategy is to develop new products on a proprietary basis, to patent them when appropriate and to rely on trade secret protection for others. SST typically develops 15 to 25 new products each year.

Simpson Strong-Tie expanded its wood construction product offering for 2015 by adding:

- new joist hangers, including one that can be installed onto a wood beam or stud wall over two layers of drywall,
- post bases and fasteners like the Strong Drive® Timber-Hex HDG screw for wood-to-wood connections suitable for use in heavy-duty marine and coastal applications, and
- the Strong Drive® XL Large-Head Metal Screw line for attaching steel roof decking to steel roof frame members with our SST Quik Drive® installation system.

SST has also launched the Deck Drive™ DCU COMPOSITE Screw for the attachment of composite decking material to wood.

Simpson Strong-Tie continues to focus on its product lines for concrete construction. The Company improved its Anchor Designer™ software for ACI 318, ETAG and CSA by adding baseplate design functionality to its best in class design aid. Also released in 2014 for the anchor line was a new line of battery dispensing tools for cartridge dispensing, expanded chemical resistance testing for anchoring adhesives and a new code listing for the line of Blue Banger Hanger ® cast-in-place, internally-threaded inserts. For the Company’s line of products to repair, protect and strengthen structures, a new offering of carbon fiber fabric and carbon fiber laminates was introduced. To complete the system, a new epoxy saturant and epoxy paste were also introduced. This tested system for strengthening structures is complimented by an industry leading offering of comprehensive engineering services which includes design of the strengthening solution, including sealed drawings.

Simpson Strong-Tie redesigned several existing wood and concrete construction products to increase load capacity and reduce installation costs. SST intends to continue to expand its product offering for multi-family homes and light

commercial and manufacturing buildings.

Sales and Marketing

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

Simpson Strong-Tie sells its products through an extensive distribution system comprising dealer distributors supplying thousands of retail locations nationwide, contractor distributors, home centers, lumber dealers, manufacturers of engineered wood products, and specialized contractors such as roof framers. In recent years, home centers have been one of SST's important distribution channels, and SST's sales to The Home Depot exceeded 10% of the Company's consolidated net sales in 2012 (see "Item 1A — Risk Factors," "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 13 to the Company's Consolidated Financial Statements). SST's DIY and dealer products are used to build projects such as decks, patio covers and garage organization systems.

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

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

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

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

Manufacturing Process

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

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

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

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

Regulation

Simpson Strong-Tie's product lines are subject to federal, state, county, municipal and other governmental and quasi-governmental regulations that affect product development, design, testing, analysis, load rating, application, marketing, sales, exportation, installation and use. A substantial portion of SST products have been evaluated and are recognized by governmental and product evaluation agencies. Some of the entities that recognize SST products include the International Code Council Uniform Evaluation Service (ICC-ES), IAPMO-UES, the City of Los Angeles (LARR's), California Division of the State Architect, the State of Florida, Underwriters Laboratory (UL), Factory Mutual (FM) and state departments of transportation. In Europe, Simpson Strong-Tie's structural products meet ETA (European Technical Agreement) regulations.

These entities require that products be evaluated to applicable code requirements, design standards and test procedures. If the current code does not provide applicable testing and design standards for a product, these entities may develop their own product acceptance or evaluation criteria, which must be followed to obtain the product's recognition and listing. Simpson Strong-Tie considers product evaluation, recognition and listing to the building code as a significant tool that facilitates and expedites the use of SST's products by design professionals, building officials, inspectors, builders, home centers and contractors. Industry members are more likely to use building products that have the appropriate recognition and listing than products that lack this acceptance. SST devotes considerable time and testing resources to obtaining and maintaining appropriate listings for its products. SST actively participates in industry related professional associations and building code committees both to keep abreast of regulatory changes and to provide comments and expertise to these regulatory agencies.

Competition

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

Raw Materials

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

The steel industry is highly cyclical and prices for Simpson Strong-Tie's raw materials are influenced by numerous factors beyond SST's control, including general economic conditions, competition, labor costs, foreign exchange rates, import duties, raw material shortages and trade restrictions. The steel market continues to be dynamic, with a high degree of uncertainty about future pricing trends. Market steel prices were fairly stable during 2014 with a decrease in market prices in December 2014. Based on current estimates the Company expects steel prices to remain relatively stable during the first quarter of 2015. Numerous factors may cause steel prices to increase in the future. In addition to increases in steel prices, mills may add surcharges for zinc, energy and freight in response to increases in their costs. These and other factors could adversely affect SST's cost and access to steel. If steel prices increase and SST is not able to maintain its prices or increase them sufficiently, SST's margins could deteriorate. See "Item 1A — Risk Factors" and "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company historically has not attempted to hedge against changes in prices of steel or other raw materials.

Patents and Proprietary Rights

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

Acquisitions and Expansion into New Markets

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

In January 2012, the Company purchased the equity of S&P Clever Reinforcement Company AG and S&P Clever International AG (collectively, "S&P Clever") for $58.1 million. S&P Clever manufactures and sells engineered materials for repair, strengthening and restoration of concrete, asphalt and masonry construction and has operations throughout Europe.

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

In February 2013, the Company purchased certain assets relating to the TJ® ShearBrace ("ShearBrace") product line of Weyerhaeuser NR Company ("Weyerhaeuser"), a Washington corporation, for $5.3 million in cash. The ShearBrace is a line of pre-fabricated shearwalls that complement the Company's Strong-Wall shearwall, and is sold throughout North America. The Company's measurement of assets acquired included goodwill of $0.9 million that has been assigned to the North America segment and intangible assets of $3.6 million, both of which are subject to tax-deductible

amortization. Inventory and equipment accounted for the balance of the purchase price.

In November 2013, Company purchased certain assets related to a connector line from Bierbach GmbH & Co. KG ("Bierbach"), a Germany corporation, for $1.2 million in cash and contingent consideration with an estimated fair value of $0.8 million. Bierbach manufactured and sold a line of connectors primarily in Germany. The Company's measurement of assets acquired included goodwill of $0.5 million, which was assigned to the Europe segment, and intangible assets of $0.6 million, both of which are subject to tax-deductible amortization. Inventory and tool and dies accounted for the balance of the purchase price.

Seasonality and Cyclicality

Simpson Strong-Tie's sales are seasonal and cyclical. Operating results vary from quarter to quarter and with economic cycles. SST maintains high inventory levels and typically ship orders as they are received, and therefore operate with little backlog. SST's sales are also dependent, to a large degree, on the North American residential home construction industry. See "Item 1A — Risk Factors" and "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations."

Environmental, Health and Safety Matters

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

Employees and Labor Relations

As of December 31, 2014, the Company had 2,434 full-time employees, of whom 977 were hourly employees and 1,457 were salaried employees. The Company believes that its overall compensation and benefits for the most part meet industry averages and that its relations with its employees are good.

A significant number of the employees at two of Simpson Strong-Tie's facilities are represented by labor unions and are covered by collective bargaining agreements. SST's facility in San Bernardino County, California, has two of SST's collective bargaining agreements, one with tool and die craftsmen and maintenance workers, and the other with sheetmetal workers. These two contracts expire February 2017 and June 2018, respectively. Simpson Strong-Tie's facility in Stockton, California, is also a union facility with two collective bargaining agreements, which also cover tool and die craftsmen and maintenance workers and sheetmetal workers. These two contracts will expire June and September 2015, respectively. Negotiations to extend both union labor contracts have not begun. The Company believes that the negotiations to extend these two contracts are not likely to have a material adverse effect on the Company's ability to provide products to its customers or on the Company's profitability, even if new agreements are not reached before the existing agreements expire. See "Item 1A — Risk Factors."

Available Information

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

Item 1A. Risk Factors.

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

This and other public reports may contain forward-looking statements based on current expectations, assumptions, estimates and projections about us and our industry. Those forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those forward-looking statements as a result of many factors, as more fully described below and elsewhere in our public reports. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

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

We estimate that 55% to 65% of our total wood product sales are dependent on housing starts. Our overall sales are significantly dependent on the level of activity within the commercial and residential construction industries. Housing starts and these industries, and as a result our business, have been materially and adversely affected by changes in regional, national or global economic conditions, especially tied to contractions in commercial and housing markets. Broader economic changes that have particular effects on our business include reduced availability of capital, inflation, deflation, adverse changes in interest rate and government initiatives to manage economic conditions or influence the commercial and residential construction industries.

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

ranging, adverse and prolonged effects on general business conditions, and materially and adversely affect our operations, financial results and liquidity.

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

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

While we generally attempt to limit our overall contractual liability to any specific customer, we may have uncapped liabilities in certain contracts, and could suffer material losses as a result of any liability claims under such contracts.

We enter into many types of contracts with our customers, including in connection with our expansion into new markets and new product lines. Under some of these contracts, our overall liability may not be limited to a specified maximum amount. If we receive claims under these contracts, we may incur liabilities significantly in excess of the revenues from such customers, which could have a material adverse effect on our results of operations.

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

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

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

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

We have substantial sales to a few large customers. Loss of all or part of our sales to a large customer would have a material adverse effect on our revenues and profits. Our largest customer accounted for 9% for the years ended December 31, 2014, and 2013 and 10% of net sales for the year ended December 31, 2012, respectively. See Note 13 to the Company’s Consolidated Financial Statements. This customer may endeavor to replace our products, in some or all markets, with lower-priced products supplied by others or may otherwise reduce its purchases of our products. We also might reduce our dependence on our largest customer by reducing or terminating sales to one or more of the customer’s subsidiaries. Any reduction in, or termination of, our sales to this customer would at least temporarily, and possibly longer cause a material reduction in our net sales, income from operations and net income. A reduction in or elimination of our sales to our largest customer, or another of our larger customers, would increase our relative dependence on our remaining large customers.

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

Our principal raw material is steel, including stainless steel. The steel industry is highly cyclical. Numerous factors beyond our control, such as general economic conditions, competition, worldwide demand, material and labor costs, energy costs, foreign exchange rates, import duties and other trade restrictions, influence prices for our raw materials. Consolidation among domestic integrated steel producers, changes in supply and demand in steel markets, changes in foreign currency exchange rates and economic conditions, and other events have led to volatility in steel costs. The domestic steel market is heavily influenced by three major United States manufacturers. We have not always been able, and in the future we might not be able, to increase our product prices in amounts that correspond to increases in costs of raw materials, without materially and adversely affecting our sales and profits.

We have not attempted to hedge against changes in prices of steel or other raw materials. In recent years, however, we have increased our steel purchases in an effort to mitigate the effects of rising steel prices.

Our efforts to increase our technology offerings and integrate new software and application offerings may prove unsuccessful.

Our industry has experienced increased complexity in some home design, and builders are more aggressively trying to reduce their costs. One of our responses has been to design and market sophisticated software to facilitate the design and marketing of our product systems. We have continued to commit resources to our software development endeavors in recent years and expect that trend to continue in 2015.
We do not have a long history of operating in the technology space and may be unable to create commercially successful software and applications. Even if we are able to create initially successful ideas, the technology industry is subject to rapid changes. We may not be able to adapt quickly enough to keep up with changing demands, and our software may become obsolete.
We also face competition from software companies that are focused solely or primarily on the development of software and applications. These companies may have significantly greater expertise and resources to devote to software development, and we may be unable to compete effectively. Even if we are successful in competing with such companies, we will likely be required to expend significant resources and personnel time to develop and maintain our software offerings.

Our design software exposes us to potential liability for engineering and other design flaws.

Our design software increasingly facilitates the creation by customers of complex construction and building designs. While we have attempted to limit our potential liability for the failure of any such design, as a result of defects in our software or other defects outside of our control in the construction of structures deigned by our software, the structures could be unsafe or could suffer severe damage, such as collapse or fire, and personal injury could result. Errors in construction unconnected with our design could also cause personal injury and unsafe structural conditions, even if our software design is sufficient. To the extent that a structure designed by our software suffers any failure or deficiency, we could be required to correct deficiencies and may become involved in litigation, even if our software design was not the cause of such deficiency. Further, if any damage or injury to such a structure is not covered by our insurance and we are held to be liable, we could be required to correct such damage and to compensate persons who might have suffered injury, and our reputation, business and financial condition could be materially and adversely affected.

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

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

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

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

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

- overvaluation of acquired businesses;
- difficulties assimilating the operations and products of acquired businesses;
- diversion of management's attention from other business concerns;
- undisclosed existing or potential liabilities of acquired businesses;
- slow acceptance or rejection of acquired businesses' products by our customers;
- risks of entering markets in which we have little or no prior experience;
- litigation involving activities, properties or products of acquired businesses;
- increased cost of regulatory compliance and enforcement;
- consumer and other claims related to products of acquired businesses; and
- the potential loss of key employees of acquired businesses.

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

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

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

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

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

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

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

We have terminated in the past and may terminate in the future product lines or businesses if we determine that the cost of operating them is not warranted by their expected profitability. For example, we sold the assets of our subsidiary Simpson Dura-Vent Company, Inc. in 2010, we terminated our heavy-duty mechanical anchor systems business in Ireland and Germany in 2012, and we sold our CarbonWrap concrete construction assets in 2013. In addition to employee severance, lease buy-outs and other shut-down costs, the net realizable value may be substantially less than our carrying cost of the assets of terminated operations, resulting in material losses and materially and adversely affecting our sales, assets, profitability and financial condition.

Seasons and business cycles affect our operating results.

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

events can also affect our sales and profitability.

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

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

activity or demand for our products have materially and adversely affected, and could in the future materially and adversely affect, our sales and profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

Complying or failing to comply with conflict minerals regulations could materially and adversely affect our supply chain, our relationships with customers and suppliers and our financial results.

We are subject to conflict mineral disclosure regulations. Under the new regulations, public companies that manufacture products that use (either in the products or the production process) specified minerals and their derivatives, including tin, tantalum, tungsten and gold, must provide disclosure annually, including whether or not such minerals originate from the Democratic Republic of Congo or adjoining countries, and in some cases must perform extensive due diligence on their supply chains for such minerals. Implementation of these new requirements could adversely affect the sourcing, availability and pricing of such minerals, which we use in manufacturing some of our products. We will incur added costs to comply with the disclosure requirements, including costs related to determining the source of such minerals used in our products. We may not be able to ascertain the origins of such minerals that we use and may not be able to satisfy requests from customers to certify that our products are free of conflict minerals. These new requirements also could constrain the pool of suppliers from which we source such minerals. We may be unable to obtain conflict-free minerals at competitive prices. Such consequences will increase costs and may materially and adversely affect our manufacturing operations and profitability.

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

We depend on our key management and technical personnel. The loss of one or more key employees could materially and adversely affect us.

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

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

A significant number of our employees are represented by labor unions and covered by collective bargaining agreements that will expire in 2015, 2017 and 2018. A work stoppage or interruption by a significant number of our employees could have a material and adverse effect on our sales and profitability.

International operations expose us to foreign exchange rate risk.

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

Natural disasters could decrease our manufacturing capacity.

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

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

Sharon Simpson controls approximately 15% of the outstanding shares of our common stock. Ms. Simpson has significant influence with respect to the election of our directors and on proposals that could come before the stockholders at the annual meeting or other special meetings.

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

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

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

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

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

Our issuance of substantial amounts of our common stock could adversely affect the prevailing market price for our common stock. All of the outstanding shares of our common stock are freely tradable without restriction under the Securities Act of 1933, other than 7.4 million shares held (as of February 26, 2015) by our “affiliates,” as that term is defined in Rule 144 under the Securities Act of 1933. Options to purchase 0.9 million shares of our common stock were outstanding as of December 31, 2014, including options to purchase 0.8 million shares that were exercisable. If a substantial number of shares were sold in the public market pursuant to Rule 144 or on exercise of options, the trading price of our common stock in the public market could be adversely affected.

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

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

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

- lack of market acceptance of new products;
- failing to develop new products with significant market potential;

- increased labor costs, including significant increases in worker’s compensation insurance premiums and health care benefits;
- failing to increase, or even maintain, sales and profits;
- failing to anticipate, appropriately invest in and effectively manage the human, information technology and logistical resources necessary to support the growth of our business, including managing the costs associated with such resources;
- failing to integrate, leverage and generate expected rates of return on investments, including expansion of existing businesses and expansion through acquisitions;
- failing to generate sufficient future positive operating cash flows and, if necessary, secure adequate external financing to fund our growth;
- interruptions in service by common carriers that ship goods within our distribution channels;
- In addition, our customers include retailers and distributors. Retail and distribution businesses have consolidated over time, which could increase the material adverse effect of losing any of them; and

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- In some years since 2007 our sales have declined with the declines in the housing and financial markets. As a result, our inventory fluctuated substantially. Inventory fluctuation can materially and adversely affect our margins, cash flow and profits.

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

If we decide to change significantly the location, nature or extent of a portion of our manufacturing operations, we may need to record an impairment of our goodwill. Our goodwill totaled $123.9 million at December 31, 2014. Recording an impairment of our goodwill correspondingly reduces our net income. In 2007, for example, we decided to move part of our Canadian manufacturing operations to China, and as a result, we recorded a goodwill impairment of $10.7 million, which materially reduced our net income in 2007. Other changes or events in the future could further impair our recorded goodwill, which could also materially and adversely affect our profitability.

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

We are required to perform impairment tests on our goodwill and indefinite-lived intangible assets annually or at any time when events occur that could affect the value of such assets. Definite-lived intangible assets are tested for impairment annually or at any time when events occur that could affect the value of such assets. To determine whether goodwill impairment has occurred, we compare the fair value of each of our reporting units with its carrying value. Significant and unanticipated changes in circumstances, such as significant adverse changes in business climate, adverse actions by regulatory authorities, unanticipated competition, loss of key customers or changes in technology or markets, can require a charge for impairment that can materially and adversely affect our reported net income and our stockholders' equity. For example, in 2012, our annual impairment test resulted in goodwill impairment charge of $2.3 million associated with assets acquired in Germany in 2002 and 2008 as part of our Germany reporting unit, and in 2014, our quarterly impairment assessment resulted in a goodwill impairment charge of $0.5 million associated with assets acquired in Germany in 2013 assigned to our Germany reporting unit. The carrying value of this reporting unit exceeded its respective fair value, primarily due to reduced future expected net cash flows from weakening profit margins. If adverse conditions in the home-building industry, the financial markets or the economy generally should occur or continue longer than we expect, we may need to take further charges for impairment, which we are not now able to estimate, but which may be substantial.

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

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

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

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

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

We have implemented a commercially available Microsoft third-party accounting software system, initially focused on replacing our internally developed general ledger and purchasing and payables systems, for use in our operations in the United States, Europe and Asia. Any errors or defects in, or unavailability of, third-party software or our implementation of the systems, could result in errors in our financial statements, which could materially and adversely affect our business. If we continue to use our other internally

developed accounting systems and they are not able to accommodate our future business needs, or if we find that they or any new systems we may implement contain errors or defects, our business and financial condition could be materially and adversely affected.

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

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

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

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

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

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

Our manufacturing facilities in China complicate our inventory management.

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

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

Constant development of new technologies and techniques, frequent new product introductions and strong price competition characterize the construction industry. The first company to introduce a new product or technique to the

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

Climate change could materially and adversely affect our business.

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

- temperatures around the world have been increasing, and are likely to continue to increase, as a result of increasing atmospheric concentrations of carbon dioxide and other carbon compounds,

- the frequency and severity of storms and flooding are likely to increase,
- severe weather is likely to occur in places where the climate has historically been more mild, and
- average sea levels have risen and are likely to continue to rise, threatening worldwide coastal development.

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

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

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

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

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

Additionally, as of December 31, 2014, we had $94.9 million, or 36.5%, of our cash and cash equivalents held outside the United States. Any repatriation of funds currently held in foreign jurisdictions to the U.S. may result in higher effective tax rates for us. In addition, there have been proposals from Congress to change U.S. tax laws that would significantly impact how U.S. multinational corporations like us are taxed on foreign earnings, which could negatively affect our business.

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

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

If we are unable to protect our information systems against data corruption, cyber-based attacks or network security breaches, our operations could be disrupted, we could have assets misappropriated, and our reputation and profitability could be negatively affected.

We depend on information technology networks and systems, including the internet, to process, transmit and store electronic information. We collect and retain large volumes of internal and customer, vendor and supplier data, including some personally identifiable information, for business purposes. We also maintain personally identifiable information about our employees. The integrity and protection of our customer, vendor, supplier, employee and other Company data is critical to our business. The regulatory environment governing information, security and privacy laws is increasingly demanding and continues to evolve. Maintaining compliance with applicable security and privacy regulations may increase our operating costs or adversely affect our business operations.

Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our team members, contractors and temporary staff. Security breaches of our infrastructure could create system disruptions, shutdowns or unauthorized disclosure of confidential information. Security breaches could disrupt our operations, and we could suffer substantial financial damage or loss because of lost or misappropriated assets, including cash, and information. Despite the security measures we have in place, our facilities and systems, and those of the retailers, dealers, licensees and other third party distributors with which we do business, may be vulnerable to security breaches, cyber-attacks, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer, employee, supplier or Company information, whether by us or by the retailers, dealers, licensees and other third party distributors with which we do business, could result in losses, severely damage our reputation, expose us to the risks of litigation and liability, disrupt our operations and have a material adverse effect on our business, results of operations and financial condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company owns its home office in Pleasanton, California, and its principal United States manufacturing facilities in Stockton and San Bernardino County, California, McKinney, Texas, and Columbus, Ohio. The principal manufacturing facilities located outside the United States, the majority of which are owned, are in Canada, France, Denmark, Germany, Poland, Switzerland, Portugal and China. The Company also owns and leases smaller manufacturing facilities, warehouses, research and development facilities and sales offices in the United States, Europe, Australia, Asia, the Middle East, New Zealand, South Africa and Chile. As of March 2, 2015, the Company's owned and leased facilities were as follows:

	Number Of Properties	Approximate Square Footage		
		Owned	Leased	Total
		(in thousands of square feet)		
North America	24	2,122	630	2,752
Europe	16	476	125	601
Asia/Pacific	13	175	54	229
Administrative and all other	3	368	—	368
Total	56	3,141	809	3,950

The Company's properties are constructed primarily of steel, brick or concrete and, in management's opinion, are maintained in good operating condition. The Company's manufacturing facilities are equipped with specialized equipment and use extensive automation. The Company considers its existing and planned facilities to be adequate for its operations as currently conducted and as planned through 2015. The Company's leased facilities typically have renewal options and have expiration dates through 2022. The Company believes it will be able to extend leases on its various facilities as necessary, as they expire. The manufacturing facilities currently are being operated with one full shift. The Company anticipates that it may require additional facilities to accommodate possible future growth.

In June 2013, the Company sold its facility in Hungen, Germany, and in September 2013, the Company sold its facility in Ireland.

The Company retained its real estate in Vacaville, California. On completion of the sale of the Simpson Dura-Vent assets to M&G in 2010, the Company leased that facility to M&G for approximately $0.9 million per year for ten years. These properties are classified in the “Administrative & All other” segment.

Item 3. Legal Proceedings.

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. The resolution of claims and litigation is subject to inherent uncertainty and could have a material adverse effect on the Company’s financial condition, cash flows and results of operations.

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 should the written agreement reached to settle the Cases and other related legal proceedings (the "Settlement") (discussed below) not receive final approval by the Court and become effective in accordance with its terms. The Company is defending 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 (the "National Union Action"). In this National Union 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, in the absence of an agreement to settle the Cases and the National Union action, 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. By Order dated September 29, 2014, the Court formally stayed proceedings in the Fireman's Fund Action, and ordered the action administratively closed. The Fireman's Fund Action is subject to motion to reopen in the absence of an agreement to settle the Cases and the Fireman's Fund Action.

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.

Through mediation, the parties entered into the Settlement to resolve all of these legal proceedings, including Cases 1, 2, 3 and 4, the National Union action; the Fireman's Fund action; and the San Francisco coverage action. All parties to the Cases have executed the Settlement and the Court has given its preliminary approval. If the Court gives final approval to the Settlement, and if the conditions are satisfied such that the Settlement becomes Effective as defined therein, the Company will incur no uninsured liability in any of these legal proceedings. The Company cannot predict when, if ever, the Settlement will be approved and its conditions satisfied such that it becomes Effective, and an unfavorable outcome could result in liability that substantially exceeds the amount of the Settlement. It is not possible to reasonably estimate the amount or range of any such possible excess.

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. In February 2012, the Court dismissed three of the five claims the plaintiffs had asserted against the Company. In December 2013, the Court granted the Company's motion for summary judgment on the remaining claims. Currently, the case is closed, though it remains subject to appeal.

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.

Item 4. Mine Safety Disclosures.

None.

PART II

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

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

	Market Price		Dividends
Quarter	High	Low	Paid
2014			
Fourth	$34.98	$29.04	$0.14
Third	36.90	29.15	0.14
Second	36.94	31.91	0.14
First	36.25	31.32	0.125
2013			
Fourth	$37.23	$30.58	$0.125

Third	33.34	29.47	0.125
Second	31.86	27.87	—
First	33.87	28.01	0.125

The Company estimates that as of February 18, 2015, approximately 7,121 persons beneficially owned shares of the Company’s common stock either directly or through nominees.

The Company began paying quarterly dividends of $0.05 per common share in January 2004. The Company paid dividends of $0.125 per share in the first quarter of 2014, and $0.14 per share in the second, third and fourth quarters of 2014. Future dividends,

if any, will be determined by the Company's Board of Directors, based on the Company's earnings, cash flows, financial condition and other factors deemed relevant by the Board of Directors.

In February 2015, the Company's Board of Directors authorized the Company to repurchase up to $50.0 million of the Company's common stock. The authorization will remain in effect through the end of 2015. This replaces the $50.0 million repurchase authorization from February 2014. In 2014, the Company repurchased 0.1 million shares of its stock, at a cost of $3.0 million; in 2013, the Company repurchased 0.3 million shares of its stock, at a cost of $9.8 million; and in 2012, the Company did not repurchase any shares of its common stock.

The following table sets forth certain information as of December 31, 2014, concerning (a) all equity compensation plans of the Company previously approved by the stockholders, and (b) all equity compensation plans of the Company not previously approved by the stockholders.

Plan Category	(a) Number of securities to be issued on exercise of outstanding options, warrants & rights (1)	(b) Weighted-average exercise price of outstanding options, warrants & rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
Equity compensation plans approved by stockholders	1,358,986	$30.29	5,805,379	(1)
Equity compensation plans not approved by stockholders	—	$0.00	32,400	(2)
Total	1,358,986	$30.29	5,837,779	(1)(2)

(1) Includes 855,433 shares subject to issuance on exercise of stock options granted under the Company's 2011 Incentive Plan and 503,553 shares of unvested restricted stock units awarded under the Company's 2011 Incentive Plan in 2012 and 2013.

(2) Includes 16,300 shares issued on January 5, 2015, under the Company's 1994 Employee Stock Bonus Plan. As of December 31, 2014, the Company had reserved 200,000 shares of common stock for issuance as bonuses under the 1994 Employee Stock Bonus Plan, of which 167,600 shares had been issued.

Company Stock Price Performance

The graph below compares the cumulative total stockholder return on the Company's common stock from December 31, 2009, through December 31, 2014, with the cumulative total return on the S&P 500 Index and the Dow Jones Building Materials Index over the same period (assuming the investment of $100 in the Company's common stock and in each of the indices on December 31, 2009, and reinvestment of all dividends).

Item 6. Selected Financial Data.

The following table sets forth selected consolidated financial information with respect to the Company for each of the five years ended December 31, 2014, 2013, 2012, 2011 and 2010 (presented in thousands, except per share amounts), derived from the Consolidated Financial Statements of the Company. The Company sold its venting operation in 2010 and has classified the venting operation as discontinued operations for the periods presented herein. The presentation of the information in the tables below complies with the accounting pronouncements. The financial information below includes the results of operations of acquired companies beginning on the dates of acquisition. For a summary of recent acquisitions, see “Note 2 — Acquisitions” to the consolidated financial statements included herein. The data presented below should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere herein.

(in thousands, except per-share data)

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Statement of Operations Data:					
Net sales	$752,148	$705,322	$656,231	$603,446	$555,487
Cost of sales	410,118	391,791	373,759	332,642	311,349
Gross profit	342,030	313,531	282,472	270,804	244,138
Research and development and other engineering expense	39,018	36,843	35,919	25,886	21,110
Selling expense	92,031	85,102	82,364	73,568	63,293
General and administrative expense	111,500	108,070	99,968	95,820	79,788
Impairment of goodwill	530	—	2,346	1,282	6,292
Net loss (gain) on disposal of assets	(325)	2,038	166	191	(4,769)
Income from operations	99,276	81,478	61,709	74,057	78,424
Income (loss) in equity method investment, before tax	—	—	—	4,389	(535)
Interest income, net	46	86	212	340	148
Income from continuing operations before income taxes	99,322	81,564	61,921	78,786	78,037
Provision for income taxes from continuing operations	35,791	30,593	20,003	27,886	33,239
Income from continuing operations, net of tax	63,531	50,971	41,918	50,900	44,798
Discontinued operations:					
Loss from discontinued operations	—	—	—	—	(23,419)
Benefit from income taxes from discontinued operations	—	—	—	—	(7,207)
Loss from discontinued operations, net of tax	—	—	—	—	(16,212)
Net income	$63,531	$50,971	$41,918	$50,900	$28,586
Earnings (loss) per share of common stock:					
Basic					
Continuing operations	$1.30	$1.05	$0.87	$1.04	$0.91
Discontinued operations	—	—	—	—	(0.33)
Net income	1.30	1.05	0.87	1.04	0.58
Diluted					

Continuing operations	$1.29	$1.05	$0.87	$1.04	$0.90
Discontinued operations	—	—	—	—	(0.33)
Net income	1.29	1.05	0.87	1.04	0.58
Cash dividends declared per share of common stock	$0.545	$0.375	$0.63	$0.50	$0.40

(in thousands)

	December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Working capital	$509,838	$464,901	$402,538	$430,476	$511,640
Property, plant and equipment, net	207,027	209,533	213,452	195,716	177,072
Goodwill	123,881	129,218	121,981	99,849	70,069
Total assets	973,065	953,613	890,322	836,087	874,709
Line of credit and long-term debt, including current portion	18	103	178	—	—
Total liabilities	109,600	112,334	100,754	77,724	86,916
Total stockholders’ equity	863,465	841,279	789,568	758,363	787,793

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This document contains forward-looking statements, based on numerous assumptions and subject to risks and uncertainties, such as statements regarding sales, gross profit margin, stock-based compensation, capital expenditures, amortization or effective tax rates at any future time or for any future period. Although the Company believes that the forward-looking statements are reasonable, it does not and cannot give any assurance that its beliefs and expectations will prove to be correct. Many factors could significantly affect the Company’s operations and cause the Company’s actual results to be substantially different from the Company’s expectations. See “Item 1A - Risk Factors.” Actual results might differ materially from results suggested by any forward-looking statements in this report. The Company does not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.

The following is a discussion and analysis of the consolidated financial condition and results of operations, unless stated otherwise, for the Company for the years ended December 31, 2014, 2013 and 2012, and of certain factors that may affect the Company’s prospective financial condition and results of operations. The following should be read in conjunction with the Consolidated Financial Statements and related Notes appearing elsewhere herein.

Overview

The Company designs, manufactures and sells building construction products that are of high quality and performance, easy to use and cost-effective for customers. It operates in three business segments determined by geographic region; North America, Europe and Asia/Pacific. The North America segment sells both wood and concrete construction products and has been highly dependent on housing starts. The Company has made efforts to be less dependent on new housing construction by expanding its line of concrete construction products. North America concrete construction product sales increased 20% in 2014 from 2012, partly due to recent acquisitions. The Europe segment also sells both wood and concrete construction products and until recently relied primarily on wood construction products. Europe concrete constructions products sales decreased slightly in 2014 from 2012, primarily due the loss of sales from exiting the heavy-duty mechanical anchor market. The Asia/Pacific segment also sells both wood and concrete construction products with concrete construction product sales increasing over 91% in 2014 from 2012. This increase in concrete construction product sales was partly responsible for the segment reporting a profit for 2014. The Asia/Pacific segment, though growing year-over-year, is not significant to the Company's overall performance.

The Company continues to invest in its strategic initiatives, such as expanding its offering of concrete construction products, including specialty chemicals and wood construction products, particularly its truss plate and software offerings. In support of these initiatives, the Company expects to hire additional personnel and commit additional resources in 2015.

The Company generally manufactures products and incurs costs in the areas where sales occur. Therefore, for each of the Company's foreign operations the local currency is the functional currency and each foreign operation transacts primarily in its functional currency. The Company does not currently plan to enter into foreign currency contracts to hedge its exposure to foreign exchange rates.

The Administrative & All Other segment primarily includes expenses such as self-insured workers compensation claims costs for employees of the Company's venting business, which was sold in 2010, stock-based compensation for certain members of management, interest expense, foreign exchange gains or losses and income tax expense, as well as income and expenses related

to real estate activities, such as rental income and depreciation expense on the Company's facility in Vacaville, California, which the Company has leased to a third party for a 10-year term expiring in August 2020.

From 2012 to 2014, net sales increased to $752.1 million from $656.2 million. The Company had net income of $63.5 million for 2014 compared to net income of $41.9 million for 2012. Diluted net income per common share was $1.29 for 2014 compared to $0.87 for 2012. Income from operations increased to $99.3 million in 2014 from $61.7 million in 2012. The increased net sales were primarily driven by increased building activity in 2014 compared to 2012.

Net sales

Net sales increased to $752.1 million in 2014 from $656.2 million in 2012, reflecting improved economic conditions primarily in North America.

• Segment net sales:

North America — Net sales increased to $613.8 million in 2014 from $522.9 million in 2012 with above average increases in the United States. The net sales increases in North America were mostly due to increases in unit sales volume in both wood and concrete construction products from increased building activity, and partly due to the acquisition of the TJ® Shear Brace ("Shear Brace") product line in February 2013.
Europe — Net sales increased to $123.2 million in 2014 from $122.5 million in 2012, due to the effects of foreign currency translation, offset by the loss of net sales from exiting the heavy-duty mechanical anchor business in 2012.
Asia/Pacific — Net sales increased to $15.1 million in 2014 from $10.8 million in 2012 partly due to new sales offices operating in New Zealand, South Africa and Thailand and the expansion of the concrete construction product line.

• Sales channels and products groups:
Net sales to contractor distributors and lumber dealers increased significantly in 2014 compared to 2012. Home center sales in 2014 decreased from 2012, primarily as a result of the loss of Lowe's as a customer in the second quarter of 2012. Lowe's accounted for $11.7 million in net sales in 2012.
The Home Depot exceeded 10% of the Company's net sales for the year ended December 31, 2012 (see "Item 1A — Risk Factors" and Note 13 to the Company's Consolidated Financial Statements).

Gross profit

Gross profit margin increased to 45.5% in 2014 from 43.0% in 2012. Wood construction products represented 85% of total sales in both 2014 and 2012. The overall 2014 gross profit margin as a percentage of sales was up due to increased profit margins on the sale of concrete construction products and wood construction products. The gross profit margin differential between wood construction products and concrete construction products narrowed from 17% in 2012 to 12% in 2014.

Operating expenses

Operating expenses increased in absolute numbers, but decreased as a percentage of sales, and were $242.8 million, or 32.3% of net sales, in 2014, and $220.8 million, or 33.6% of net sales, in 2012. The change was primarily due to net sales increasing at a higher rate than operating expenses as well as a $1.8 million decrease in 2014 goodwill impairment compared to 2012 and a $1.6 million decrease from 2012 in charges related to the exiting the heavy-duty mechanical anchor business.

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Results of Operations

The following table sets forth, for the years indicated, the percentage of net sales of specified items in the Company's Consolidated Statements of Operations.

	Years Ended December 31,		
	2014	2013	2012
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	54.5 %	55.5 %	57.0 %
Gross profit	45.5 %	44.5 %	43.0 %
Research and development and other engineering	5.2 %	5.2 %	5.5 %
Selling expense	12.2 %	12.1 %	12.6 %
General and administrative expense	14.8 %	15.3 %	15.2 %
Impairment of goodwill	0.1 %	— %	0.4 %
Net loss on disposal of assets	— %	0.3 %	— %
Income from operations	13.2 %	11.6 %	9.3 %
Interest income, net	— %	— %	— %
Income before taxes	13.2 %	11.6 %	9.3 %
Provision for income taxes	4.8 %	4.3 %	3.0 %
Net income	8.4 %	7.3 %	6.3 %

Comparison of the Years Ended December 31, 2014 and 2013

Net sales increased 6.6% to $752.1 million for 2014 from $705.3 million for 2013. The Company had net income of $63.5 million for 2014, compared to net income of $51.0 million for 2013. Diluted net income per common share was $1.29 for 2014, compared to diluted net income of $1.05 per common share for 2013. Income from operations increased 21.8% to $99.3 million in 2014 from $81.5 million in 2013.

The following table shows the change in the Company's operations from 2013 to 2014, and the increases or decreases for each category by segment.

(in thousands)

		Increase (Decrease) in Operating Segment				
	2013	North America	Europe	Asia/ Pacific	Admin & All Other	2014
Net sales	$705,322	$41,054	$5,437	$335	$—	$752,148
Cost of sales	391,791	17,416	2,075	(596)	(568)	410,118
Gross profit	313,531	23,638	3,362	931	568	342,030
Research and development and other engineering expense	36,843	1,855	333	48	(61)	39,018
Selling expense	85,102	6,491	308	124	6	92,031
General and administrative expense	108,070	4,253	(946)	119	4	111,500
Impairment of goodwill	—	—	530	—	—	530
Loss (gain) on sale of assets	2,038	1,037	(610)	4	(2,794)	(325)
Income from operations	81,478	10,002	3,747	636	3,413	99,276
Interest income, net	86	(101)	79	(20)	2	46

Income before income taxes	81,564	9,901	3,826	616	3,415	99,322
Provision for income taxes	30,593	3,914	(469)	984	769	35,791
Net income	$50,971	$5,987	$4,295	$(368)	$2,646	$63,531

Net Sales

The following table shows net sales by segment for the years ended December 31, 2013 and 2014:

(in thousands)

	North America	Europe	Asia/ Pacific	Total
December 31, 2013	$572,789	$117,740	$14,793	$705,322
December 31, 2014	613,843	123,177	15,128	752,148
Increase	$41,054	$5,437	$335	$46,826
Percentage increase	7.2 %	4.6 %	2.3 %	6.6 %

The following table shows segment net sales as percentages of total net sales for the years ended December 31, 2013 and 2014:

	North America	Europe	Asia/ Pacific	Total
Percentage of total 2013 net sales	81.2 %	16.7 %	2.1 %	100.0 %
Percentage of total 2014 net sales	81.6 %	16.4 %	2.0 %	100.0 %

- Segment net sales:
North America - Net sales increased 7.2% in 2014 compared to 2013, primarily due to increased unit sales volumes, while average prices for the year were down 0.6%.
Europe - Net sales increased 4.6% in 2014 compared to 2013, mostly due to increased unit sales volumes and the effects of foreign currency translations, partly offset by slightly lower average selling prices. However, sales growth has trended lower in the last two quarters of 2014, consistent with declining economic activity in the region, and European currencies have weakened against the United States Dollar. Based on current information and subject to future events and circumstances, the Company expects that the region’s current economic conditions will remain challenging during the first quarter of 2015 and could continue to negatively affect net sales.

- Consolidated net sales channels and product groups:
Net sales to lumber dealers, contractor distributors, dealer distributors and home centers increased in 2014 compared to 2013, due to increased building activity.
Wood construction product net sales represented 85% of total Company net sales in both 2014 and 2013.
Concrete construction product net sales represented 15% of total Company net sales in both 2014 and 2013.

Gross Profit

The following table shows gross profit by segment for the years ended December 31, 2013 and 2014:

(in thousands)

	North America	Europe	Asia/ Pacific	Admin & All Other	Total
December 31, 2013	$267,478	$43,603	$2,720	$(270)	$313,531
December 31, 2014	291,116	46,965	3,652	297	342,030
Increase	$23,638	$3,362	$932	$567	$28,499

Percentage increase	8.8	%	7.7	%	34.3	%	N/M	9.1	%

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The following table shows gross profit percentages by segment for the years ended December 31, 2013 and 2014:

	North America		Europe		Asia/ Pacific		Admin & All Other	Total	
2013 gross profit percentage	46.7	%	37.0	%	18.4	%	NM	44.5	%
2014 gross profit percentage	47.4	%	38.1	%	24.1	%	NM	45.5	%

Gross profit increased to $342.0 million in 2014 from $313.5 million in 2013. Gross profit as a percentage of net sales increased to 45.5% in 2014 from 44.5% in 2013. Based on current information and subject to future events and circumstances, the Company estimates that its 2015 gross profit margin will be between 44.5% and 46%.

- North America - Gross profit margin increased to 47.4% in 2014 from 46.7% in 2013, as a result of decreases as a percentage of sales in material, labor and warehousing costs. In 2014, the gross profit margin was also affected by an atypical non-recurring $3.3 million pension charge that resulted from the Company's withdrawal from a multi-employer union-based defined-benefit pension plan, partly offset by an atypical non-recurring $2.5 million correction to workers' compensation expense in states where the Company is not self-insured.
- Europe - Gross profit margin increased to 38.1% in 2014 from 37.0% in 2013, as a result of decreases as a percentage of sales in factory overhead (caused by increased unit sales volumes) and material costs, partly offset by increases in shipping and warehouse and labor costs.
- Product mix - The gross profit margin differential between wood construction products and concrete construction products, which have lower gross profit margins, was 12% and 13% in 2014 and 2013, respectively. The lower gross profit margins on concrete construction products negatively affected gross margins in North America, with concrete construction products representing 13% of North America net sales in 2014 and 2013, respectively, and in Europe, with concrete construction products representing 20% and 19% of Europe net sales in 2014 and 2013, respectively.
- Steel prices - The market price for steel decreased in December 2014. The Company expects the market price for steel to remain relatively stable during the first quarter of 2015.

Research and development and engineering expense

Research and development and engineering expense increased 5.9% to $39.0 million in 2014 from $36.8 million in 2013, primarily due to an increase of $2.1 million in personnel costs related to the addition of staff in support of product and software development and pay rate increases instituted in January 2014, and an increase of $0.9 million in cash profit sharing, partly offset by a decrease of $1.0 million in expensed software development costs.

- North America - Research and development and engineering expense increased $1.9 million, primarily due to increases of $2.1 million in personnel costs and $0.8 million in cash profit sharing, partly offset by a decrease in software development costs of $1.1 million.

Selling expense

Selling expense increased 8.1% to $92.0 million in 2014 from $85.1 million in 2013, primarily due to increases of $2.9 million in personnel costs, $2.2 million in professional fees, $1.0 million in cash profit sharing and commissions and $0.7 million in advertising and promotional costs.

- North America - Selling expense increased $6.5 million, primarily due to an increase of $2.5 million in personnel costs related to the addition of staff in support of product marketing initiatives and pay rate increases instituted in January 2014, and increases of $2.0 million in professional fees, $1.1 million in advertising and promotional costs and $0.7 million in cash profit sharing and commissions.
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Europe - Selling expense increased $0.3 million, primarily due to increases of $0.4 million in personnel costs and $0.2 million in cash profit sharing and commissions, partly offset by a decrease of $0.3 million in advertising and promotional costs.

General and administrative expense

General and administrative expense increased 3.2% to $111.5 million in 2014 from $108.1 million in 2013, primarily due to increases of $2.5 million in cash profit sharing, $1.6 million in personnel costs, $0.7 million in unrealized foreign currency losses, $0.4 million in depreciation expense and $0.2 million in facility maintenance expense, partly offset by a decrease in impairment charges of $1.0 million related to an impairment of fixed assets in 2013, a decrease of $0.6 million in professional fees and a $0.3

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million decrease in stock-based compensation, as well as a $0.4 million gain resulting from a reduction in a contingent liability related to the Bierbach acquisition (compared to no gain recorded in 2013).

- North America - General and administrative expense increased $4.3 million, primarily due to increases of $1.7 million in cash profit sharing, $1.2 million in personnel costs related to the addition of administrative and information technology staff and pay rate increases instituted in January 2014, $0.7 million in depreciation expense, $0.4 million in facility maintenance expense and $0.2 million in stock-based compensation.
- Europe - General and administrative expense decreased by $0.9 million, primarily due to a $1.0 million impairment charge related to an impairment of fixed assets in 2013, decreases of $0.8 million in professional fees, $0.5 million in stock-based compensation, $0.2 million in depreciation expense and $0.2 million in facility maintenance expense as well as a $0.5 million gain resulting from a reduction of a contingent liability related to the Bierbach acquisition, partly offset by increases of $1.4 million in unrealized foreign currency losses, $0.5 million in cash profit sharing and $0.3 million in personnel costs.

Impairment of goodwill

The impairment charge of $0.5 million taken in 2014 was associated with Bierbach goodwill acquired in Germany in November 2013, and as a result, the goodwill of the Germany reporting unit was fully impaired. The impairment resulted from a reduction in expected future sales from former Bierbach customers. The Company’s 2014 annual goodwill impairment analysis did not result in additional impairment of goodwill. See “Critical Accounting Policies and Estimates — Goodwill Impairment Testing."

Disposal of assets

The Company did not dispose of any material assets during 2014 compared to 2013 when the Company realized a $2.8 million net loss on the liquidation of its Irish subsidiary, partly offset by a $1.4 million gain on the sale of its CarbonWrap product line.

Provision for income taxes

The effective income tax rate in 2014 was 36.0%, as compared to 37.5% in 2013. The decrease in the effective income tax rate was due to increased manufacturing deductions for certain types of expenditures, a solar tax credit for installing solar panels at one of the Company's facilities, and reduced operating losses in 2014 in the Europe and Asia/Pacific segments for which no tax benefit was recorded. Based on current information and subject to future events and circumstances, the Company estimates that its 2015 effective tax rate will be between 36% and 38%.

Comparison of the Years Ended December 31, 2013 and 2012

Net sales increased 7.5% to $705.3 million for 2013 from $656.2 million for 2012. The Company had net income of $51.0 million for 2013 compared to net income of $41.9 million for 2012. Diluted net income per common share was $1.05 for 2013 compared to diluted net income of $0.87 per common share for 2012. Income from operations increased 32.0% to $81.5 million in 2013 from $61.7 million in 2012. The following table shows the change in the Company’s operations from 2012 to 2013, and the increases or decreases for each category by segment.

(in thousands)

		Increase (Decrease) in Operating Segment				
	2012	North America	Europe	Asia/ Pacific	Admin & All Other	2013
Net sales	$656,231	$49,894	$(4,752)	$3,949	$—	$705,322
Cost of sales	373,759	25,658	(10,568)	2,710	232	391,791
Gross profit	282,472	24,236	5,816	1,239	(232)	313,531
Research and development and other engineering expense	35,919	1,038	(826)	730	(18)	36,843
Selling expense	82,364	2,710	(834)	916	(54)	85,102
General and administrative expense	99,968	8,656	(96)	(984)	526	108,070
Impairment of goodwill	2,346	—	(2,346)	—	—	—
Loss on sale of assets	166	(1,467)	564	(20)	2,795	2,038
Income from operations	61,709	13,299	9,354	597	(3,481)	81,478
Interest income, net	212	49	81	(53)	(203)	86
Income before income taxes	61,921	13,348	9,435	544	(3,684)	81,564
Provision for income taxes	20,003	11,335	(638)	(424)	317	30,593
Net income	$41,918	$2,013	$10,073	$968	$(4,001)	$50,971

Net Sales

The following table shows net sales by segment for the years ended December 31, 2012 and 2013:

(in thousands)

	North America	Europe	Asia/ Pacific	Total
December 31, 2012	$522,895	$122,492	$10,844	$656,231
December 31, 2013	572,789	117,740	14,793	705,322
Increase (decrease)	$49,894	$(4,752)	$3,949	$49,091
Percentage increase (decrease)	9.5%	(3.9)%	36.4%	7.5%

The following table shows segment net sales as percentages of total net sales for the years ended December 31, 2012 and 2013:

	North America	Europe	Asia/ Pacific	Total
Percentage of total 2012 net sales	79.7%	18.7%	1.6%	100.0%

Percentage of total 2013 net sales	81.2	%	16.7	%	2.1	%	100.0	%

- Segment net sales:

North America — The 9.5% increase in net sales accounted for all of the overall increase and resulted from increased sales volume, including from the acquisitions of Fox Industries and Automatic Stamping, while average prices for the year were down 2.3%.

- Europe — The 3.9% decrease in net sales resulted from the Company exiting the heavy-duty mechanical anchor business, reduced sales volumes due to difficult economic conditions and a slight price decrease, partly offset by the acquisition of S&P Clever. Europe net sales were not materially affected by currency translations.
- Asia/Pacific — Net sales in the Asia/Pacific segment, although relatively small, increased as the Company expanded its presence in the region and with additional concrete construction product sales. Asia/Pacific net sales were not materially affected by currency translations.

- Consolidated net sales channels and product groups:
Net sales to contractor distributors, dealer distributors and lumber dealers increased in 2013, compared to 2012, while net sales to home centers decreased, partly as a result of the loss of Lowe's as a customer in the second quarter of 2012. Lowe's accounted for $11.7 million in net sales in 2012.
Excluding Lowe's, net sales to home centers decreased 4% in 2013, compared to 2012, while net sales to the Company's largest customer decreased slightly in 2013, compared to 2012.
Wood construction product sales represented 85% of total Company sales in both 2013 and 2012.
Concrete construction product sales represented 15% of total Company sales in both 2013 and 2012.

Gross Profit

The following table shows gross profit by segment for the years ended December 31, 2012 and 2013:

(in thousands)

	North America	Europe	Asia/ Pacific	Admin & All Other	Total
December 31, 2012	$243,242	$37,787	$1,481	$(38)	$282,472
December 31, 2013	267,478	43,603	2,720	(270)	313,531
Increase (decrease)	$24,236	$5,816	$1,239	$(232)	$31,059
Percentage increase	10.0%	15.4%	83.7%	N/M	11.0%

The following table shows gross profit percentages by segment for the years ended December 31, 2012 and 2013:

	North America	Europe	Asia/ Pacific	Admin & All Other	Total
2012 gross profit percentage	46.5%	30.8%	13.7%	NM	43.0%
2013 gross profit percentage	46.7%	37.0%	18.4%	NM	44.5%

Gross profit increased to $313.5 million in 2013 from $282.5 million in 2012. Gross profit as a percentage of net sales increased to 44.5% in 2013 from 43.0% in 2012.

- North America — Gross profit margin increased slightly to 46.7% in 2013 from 46.5% in 2012, due to lower material costs as a percentage of sales. Concrete construction product sales, which have a lower gross profit margin than wood construction product sales, were 13% of North America sales in each of 2013 and 2012.
- Europe — Gross profit margin increased to 37.0% in 2013 from 30.8% in 2012, as a result of decreases in all elements of costs of sales as a percentage of sales, primarily due to exiting the lower-margin heavy-duty mechanical anchor business in 2012, which included $2.3 million in severance expense, $1.0 million loss on the liquidation of inventory and $0.2 million in accelerated depreciation expense.
- Product mix — The gross profit margin differential between wood construction products and concrete construction products decreased from 17% in 2012 to 13% in 2013, primarily due to reduced concrete construction product costs

due to exiting the heavy-duty mechanical anchor business.

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Research and development and engineering expense

Research and development and engineering expense increased 2.6% to $36.8 million in 2013 from $35.9 million in 2012, primarily due to increases of $5.2 million in personnel costs from hiring an in-house software development team, $0.9 million in cash profit sharing, $0.6 million in depreciation expense, $0.3 million in stock-based compensation and $0.3 million in communication and

computer expense, partly offset by a decrease of $6.4 million in professional fees that resulted from replacing a third-party development company contracted by the Company in 2012 with an in-house software development team.

- North America — Research and development and engineering expense increased $1.0 million primarily due to increases of $4.5 million in personnel costs from hiring an in-house software development team, $0.8 million in cash profit sharing, $0.3 million in each of stock-based compensation, depreciation expense and communication and computer expense, mostly offset by a decrease of $5.9 million in professional fees, primarily due to replacing a third-party development company contracted by the Company in 2012 with the in-house software development team.
- Europe — Research and development and engineering expense decreased $0.8 million, primarily due to exiting the heavy-duty mechanical anchor business in 2012, which had research and development and engineering expense of $0.8 million in 2012.

Selling expense

Selling expense increased 3.3% to $85.1 million in 2013 from $82.4 million in 2012, primarily due to increases of $1.4 million in cash profit sharing and commissions, $0.8 million in stock-based compensation and $0.5 million in professional fees.

- North America — Selling expense increased $2.7 million, primarily due to increases of $0.9 million in cash profit sharing and commissions, $0.7 million in stock-based compensation, $0.6 million in personnel costs (mostly from additional sales representatives in support of new businesses acquired in 2011 and 2012 and increased pay rates) and $0.5 million in professional fees.
- Europe — Selling expense decreased $0.8 million, primarily due to exiting the heavy-duty mechanical anchor business in 2012, which had selling expense of $1.2 million in 2012.

General and administrative expense

General and administrative expense increased 8.1% to $108.1 million in 2013 from $100.0 million in 2012, primarily due to increases of $3.6 million in cash profit sharing, $3.3 million in personnel costs, $0.7 million in stock-based compensation, $0.6 million in communication and computer expense, $0.6 million in depreciation expense, as well as $0.4 million in net losses on foreign currency translations and $0.2 million in impairment expense associated with the Company’s real estate in Ireland. These changes were partly offset by decreases of $1.0 million in legal and professional fees, $0.5 million in bad debt expense and $0.4 million in amortization expense.

- North America — General and administrative expense increased $8.7 million, primarily due to increases of $3.3 million in personnel costs due to the addition of administrative and information technology staff and pay rate increases instituted in January 2013, $2.6 million in cash profit sharing, $0.7 million in communication expense, $0.6 million in depreciation expense and computer expense, $0.4 million in amortization expense and $0.2 million in each of stock-based compensation and net losses on foreign currency activity, partly offset by decreases of $0.5 million in impairment, $0.4 million in bad debt expense and $0.2 million in legal and professional fees.
- Europe — General and administrative expense decreased $0.1 million, primarily due to decreases of $0.9 million in amortization expense and $0.2 million in legal and professional fees and increased gains of $0.6 million in foreign currency activity, partly offset by a $0.7 million in impairment in the first quarter of 2013 associated with the Company’s real estate in Ireland and increases of $0.4 million in each of cash profit sharing and stock-based compensation.
- Admin & All Other — General and administrative expense increased $0.5 million, primarily due to an increase of $0.6 million in cash profit sharing, $0.4 million in foreign currency translation losses and $0.2 million in stock-based compensation, partly offset by a decrease of $0.6 million in legal and professional fees.

Impairment of Goodwill

The impairment charge of $2.3 million taken in 2012 resulting from the Company's annual impairment test in the fourth quarter of 2012 was associated with assets in Germany that were acquired in 2002 and 2008 and with the Germany reporting unit. The Germany reporting unit's carrying value, including goodwill, exceeded the fair value, primarily due to reduced future expected net cash flows from weakening profit margins due to European economic conditions, specifically in Germany. The method to determine the fair value of the Germany reporting unit was a discounted cash flow model. The Company's 2013 annual goodwill impairment analysis did not result in an impairment of goodwill. See "Critical Accounting Policies and Estimates — Goodwill Impairment Testing."

Disposal of assets

The net loss of $2.0 million on disposal of assets for 2013 included the $0.7 million loss on the third quarter 2013 sale of the Ireland facility recorded in the Europe segment, the $1.4 million gain on the fourth quarter 2013 sale of the CarbonWrap product line recorded in the North America segment and the $2.8 million loss on the fourth quarter 2013 release of the cumulative translation adjustment from accumulated other income related to the Company's Irish subsidiary recorded in the Administration & All Other segment.

Provision for Income Taxes

The effective income tax rate increased from 32.3% in 2012 to 37.5% in 2013. The 2012 effective tax rate included the realization of a $9.9 million tax benefit resulting from the worthless stock deduction for the Company's investment in its Irish subsidiary in the fourth quarter of 2012, partly offset by $2.3 million in non-deductible acquisition costs and valuation allowances taken on operating losses in the Europe and Asia/Pacific segments. The 2013 effective tax rate was lower than estimated due to better-than-expected operating results in the Europe and Asia/Pacific segments.

Critical Accounting Policies and Estimates

The critical accounting policies described below affect the Company's more significant judgments and estimates used in the preparation of the Consolidated Financial Statements. If the Company's business conditions change or if it uses different assumptions or estimates in the application of these and other accounting policies, the Company's future results of operations could be adversely affected.

Inventory Valuation

Inventories are stated at the lower of cost or net realizable value (market). Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- Raw materials and purchased finished goods — principally valued at cost determined on a weighted average basis: and
- In-process products and finished goods — cost of direct materials and labor plus attributable overhead based on a normal level of activity.

The Company applies net realizable value and obsolescence to the gross value of inventory. The Company estimates net realizable value based on estimated selling price less further costs to completion and disposal. The Company impairs slow-moving products by comparing inventories on hand to projected demand. If on-hand supply of a product exceeds projected demand or if the Company believes the product is no longer marketable, the product is considered obsolete inventory. The Company revalues obsolete inventory to its net realizable value. The Company has consistently applied this methodology. The Company believes that this approach is prudent and makes suitable impairments for slow-moving and obsolete inventory. When impairments are established, a new cost basis of the inventory is created. Unexpected change in market demand, building codes or buyer preferences could reduce the rate of inventory turnover and require the Company to recognize more obsolete inventory.

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 service 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.

Business Combinations

The Company recognizes separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to value assets acquired and liabilities assumed at the acquisition date, the Company's estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. On the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, the Company records subsequent adjustments, if any, to its consolidated statements of operations. None of the subsequent adjustments for the years ended 2012, 2013 and 2014 were material.

Accounting for business combinations requires the Company's management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets. Although the Company believes that the assumptions and estimates it has made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets that the Company has acquired include:

- Future expected cash flows from customer relationships and acquired unpatented technologies and patents;
- The acquired company's brand and competitive position and assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and
- Discount rates.

Unanticipated events and circumstances may affect the accuracy or validity of such assumptions, estimates or actual results.

For a given acquisition, the Company may identify pre-acquisition contingencies as of the acquisition date and may extend its review and evaluation of these pre-acquisition contingencies throughout the measurement period (up to one year from the acquisition date) to obtain sufficient information to assess whether the Company includes these contingencies as a part of the purchase price allocation and, if so, to determine their estimated amounts.

If the Company determines that a pre-acquisition contingency (that is not income-tax related) is probable and estimable as of the acquisition date, the Company records its best estimate for such a contingency as a part of the preliminary purchase price allocation. The Company often continues to gather information for and evaluate its pre-acquisition contingencies throughout the measurement period. If the Company changes the amounts recorded or identifies additional pre-acquisition contingencies during the measurement period, such amounts are included in the purchase price allocation during the measurement period and, subsequently, in the Company's results of operations.

In addition, the Company estimates uncertain tax positions and income tax related valuation allowances assumed in connection with a business combination initially as of the acquisition date. The Company reevaluates these items quarterly with any adjustments to its preliminary estimates being recorded to goodwill if the Company is within the measurement period. The Company continues to collect information to determine estimated values. Subsequent to the measurement period or the Company's final determination of the uncertain tax positions estimated value or tax-related valuation allowances, whichever comes first, changes to these uncertain tax positions and tax-related valuation allowances will affect the Company's provision for income taxes in its consolidated statement of operations and could

have a material effect on the Company’s results of operations and financial position.

Goodwill Impairment Testing

The Company tests goodwill for impairment at the reporting unit level on an annual basis (in the fourth quarter for the Company). The Company also reviews goodwill for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or disposition or relocation of a significant portion of a reporting unit.

The reporting unit level is generally one level below the operating segment, which is at the country level, except for the United States, Denmark, Australia and S&P Clever reporting units.

The Company determined that the United States reporting unit includes four components: Northwest United States, Southwest United States, Northeast United States and Southeast United States (collectively, the “U.S. Components”). The Company aggregates the U.S. Components into a single reporting unit because management concluded that they are economically similar and that the

goodwill is recoverable from the U.S. Components working in concert. The U.S. Components are economically similar because of a number of factors, including selling similar products to shared customers and sharing assets and services such as intellectual property, manufacturing assets for certain products, research and development projects, manufacturing processes, management of inventory excesses and shortages and administrative services. These activities are managed centrally at the U.S. Components level and costs are allocated among the four U.S. Components.

The Company determined that the Australia reporting unit includes three components: Australia, New Zealand and South Africa (collectively, the “AU Components”). The Company aggregates the AU Components into a single reporting unit because management concluded that they are economically similar and that the goodwill is recoverable from the AU Components working in concert. The AU Components are economically similar because of a number of factors, including that New Zealand and South Africa operate as extensions of their Australian parent company selling similar products and sharing assets and services such as intellectual property, manufacturing assets for certain products, management of inventory excesses and shortages and administrative services. These activities are managed centrally at the AU Components level and costs are allocated among the AU Components.

The Company determined that the S&P Clever reporting unit includes eight components: S&P Switzerland, S&P Poland, S&P Austria, S&P The Netherlands, S&P Portugal, S&P Germany, S&P France and S&P Nordic (collectively, the "S&P Components”). The Company aggregates the S&P Components into a single reporting unit because management concluded that they are economically similar and that the goodwill is recoverable from the S&P Components working in concert. The S&P Components are economically similar because of a number of factors, including sharing assets and services such as intellectual property, manufacturing assets for certain products, research and development projects, manufacturing processes, management of inventory excesses and shortages and administrative services. These activities are managed centrally at the S&P Components level and costs are allocated among the S&P Components.

The Company determined that the Denmark reporting unit includes two components: Denmark and Poland (collectively the “DK Components”). The Company aggregates the DK Components into a single reporting unit because management concluded that they are economically similar and that the goodwill is recoverable from the DK Components working in concert. The DK Components are economically similar because of a number of factors, including that Poland sells similar products and shares assets, such as intellectual property, manufacturing assets for certain products and management of inventory excesses and shortages.

For certain reporting units, the Company may first assess qualitative factors related to the goodwill of the reporting unit to determine whether it is necessary to perform a two-step impairment test. If the Company judges that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount of the reporting unit, including goodwill, no further testing is required. If the Company judges that it is more likely than not that the fair value of the reporting unit is less than the carrying amount of the reporting unit, including goodwill, management will perform a two-step impairment test on goodwill. In the first step ("Step 1"), the Company compares the fair value of the reporting unit to its carrying value. The fair value calculation uses a discounted cash flow model and may be supplemented by market approaches if information is readily available. If the Company judges that the carrying value of the net assets assigned to the reporting unit, including goodwill, exceeds the fair value of the reporting unit, a second step of the impairment test must be performed to determine the implied fair value of the reporting unit’s goodwill. If the Company judges that the carrying value of a reporting unit’s goodwill exceeds its implied fair value, the Company would record an impairment charge equal to the difference between the implied fair value of the goodwill and the carrying value.

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is a judgment involving significant estimates and assumptions. These estimates and assumptions include revenue growth rates, operating margins and working capital requirements used to calculate projected future cash flows, risk-adjusted discount rates, 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.

Assumptions about a reporting unit's operating performance in the first year of the discounted cash flow model used to determine whether or not the goodwill related to that reporting unit is impaired are derived from the Company's budget. The fair value model considers such factors as macro-economic conditions, revenue and expense forecasts, product line changes, material, labor and overhead costs, tax rates, working capital levels and competitive environment. Future estimates, however derived, are inherently uncertain but the Company believes that this is the most appropriate source on which to base its fair value calculations.

The Company uses these parameters only to provide a basis for the determination of whether or not the goodwill related to a reporting unit is impaired. No inference whatsoever should be drawn from these parameters about the Company's future financial performance and they should not be taken as projections or guidance of any kind.

The impairment charge taken in the third quarter of 2014 was associated with assets in the Germany reporting unit acquired from Bierbach in 2013. The factors that led to the third quarter impairment were a failure to retain Bierbach's historical customers and

increased competition, which led to the reduction in the contingent consideration liability, related to the Bierbach acquisition and resulted in management performing an impairment test to evaluate the recoverability of the Germany reporting unit's goodwill. The test resulted in the impairment of all of the reporting unit’s goodwill in the amount of $0.5 million. In connection with the impairment of the goodwill, the Company also reviewed associated long-lived assets in Germany, such as property and equipment, and intangible assets, for recoverability by comparing the projected undiscounted net cash flows associated with those assets to their carrying values. No impairment of long-lived assets was required as a result of that review during the third quarter of 2014.

The impairment charge taken in 2012 resulting from the Company’s annual impairment test in the fourth quarter of 2012 was associated with assets in the Germany reporting unit that were acquired in 2002 and 2008. The Germany reporting unit’s carrying value, including goodwill, exceeded the fair value, primarily due to reduced future expected net cash flows from weakening profit margins due to European economic conditions, specifically in Germany. The method to determine the fair value of the Germany reporting unit was discounted cash flow models. At December 31, 2014, the balance of goodwill of the Germany reporting unit was fully impaired. The reporting unit is associated with the Europe segment.

The Company’s S&P Clever reporting unit passed Step 1 of the annual 2014 impairment test by an 8% margin indicating an estimated fair value greater than its net book value. The S&P Clever reporting unit is sensitive to management’s plans for increasing sales, margins and cash flows by expanding its sales into France, Denmark, Sweden and eventually into other European countries, and selling into the Company’s Asia/Pacific segment, as well as the release of new products. The S&P Clever reporting unit’s failure to meet management’s objectives could result in future impairment of some or all of the S&P Clever reporting unit’s goodwill, which was $17.5 million at December 31, 2014.

Key assumptions used in Step 1 of the Company's annual goodwill impairment test included compound annual growth rates (“CAGR”) and average annual pre-tax operating margins during the forecast period, and discount rates. A sensitivity assessment for the key assumptions included in the S&P Clever reporting unit annual goodwill impairment test is as follows:

- A 68 basis point hypothetical percentage increase in the discount rate, holding all other assumptions constant, would not have decreased the fair value of the reporting unit below its carrying value, and thus it would not result in the reporting unit failing Step 1 of the goodwill impairment test.
- A 20 basis point hypothetical percentage decrease in the CAGR, holding all other assumptions constant, would not have decreased the fair value of the reporting unit below its carrying value.
- A 9% hypothetical annual average percentage decrease in average annual pre-tax operating profit, holding all other assumptions constant, would not have decreased the fair value of the reporting unit below its carrying value.

Effect of New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification Update No. 2014-09, Revenue from Contracts with Customers ("ASC Update No. 2014-09"). ASC Update No. 2014-09 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASC Update No. 2014-09 is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASC Update No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual and interim periods beginning after December 15, 2016, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option

to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASC Update No. 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the effects of adopting ASC Update No. 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard.

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.

Liquidity and Sources of Capital

The Company’s liquidity needs arise principally from working capital requirements, capital expenditures and business acquisitions. During the three years ended December 31, 2014, the Company relied on internally generated funds to finance these needs. The Company’s working capital requirements are seasonal with the highest need typically occurring in the second and third quarters of the year. Cash and cash equivalents were $260.3 million and $251.2 million at December 31, 2014 and 2013, respectively. Working capital was $509.8 million and $464.9 million at December 31, 2014 and 2013, respectively. As of December 31, 2014,

the Company had no borrowings on its revolving line of credit. The Company had unused capacity on this and other credit facilities of $304.3 million.

As of December 31, 2014, the Company’s investments consisted of only United States Treasury securities and money market funds aggregating $99.0 million. Cash collected by the Company’s United States subsidiaries is routinely transferred into cash management accounts, which typically do not have restrictions on withdrawals. As of December 31, 2014, the Company had $94.9 million, or 36.5%, of its cash and cash equivalents held outside the United States in accounts belonging to several of the Company’s foreign operating entities. The majority of this balance is held in foreign currencies and could be subject to additional taxation if it were repatriated to the United States. The Company has no plans to repatriate cash and cash equivalents held outside the United States as such funds are expected to be used to fund future international growth and acquisitions.

The Company’s operating activities provided $67.2 million, $106.5 million and $68.1 million in net cash in 2014, 2013 and 2012, respectively. In 2014, cash was provided by net income of $63.5 million, noncash expenses totaling $41.1 million, which consisted primarily of depreciation, amortization and stock-based compensation charges, and increases in other long-term liabilities of $2.6 million and accrued liabilities of $2.3 million. These increases were offset by increases in inventories of $22.4 million, trade accounts receivable of $4.6 million and other current assets of $3.7 million and decreases in accounts payable of $11.3 million and income taxes payable of $0.9 million. The Company’s inventories increased 9.5% from $197.7 million at December 31, 2013, to $216.5 million at December 31, 2014, primarily due to increases in raw materials and increases in in-process and finished goods. The balance of the cash provided resulted from changes in other asset and liability accounts, none of which was individually material.

In 2013, cash was provided by net income of $51.0 million, noncash expenses totaling $41.3 million, primarily depreciation, amortization, stock-based compensation charges and impairment of assets, a decrease in inventories of $8.5 million and increases in income taxes payable of $4.6 million, accrued profit sharing and commissions of $2.6 million and accrued liabilities of $2.1 million. These increases were offset by increases in trade accounts receivable of $6.7 million and decreases in accounts payable of $2.7 million and other long-term liabilities of $1.0 million. The Company’s inventories decreased 3.1% from $204.1 million at December 31, 2012, to $197.7 million at December 31, 2013, primarily due to decreases in raw materials, partly offset by increases in in-process and finished goods. The balance of the cash provided resulted from changes in other asset and liability accounts, none of which was individually material.

The Company’s investing activities used $23.5 million, $17.3 million and $77.7 million in net cash in 2014, 2013 and 2012, respectively. Cash paid for capital expenditures increased to $23.7 million in 2014 from $16.8 million in 2013. The Company used $8.5 million in 2014 to invest in software development, $8.7 million to expand or replace manufacturing capacity, primarily in North America, and $2.2 million to install a solar roof system on one of the Company's North American facilities. The balance of the cash used for capital expenditures resulted from numerous purchases, none of which was individually material. The cash paid for capital expenditures was partly offset by proceeds from the sale of assets of $0.7 million. Based on current information and subject to future events and circumstances, the Company’s planned capital expenditures for 2015 total approximately $33.0 million.

In 2013, cash of $17.3 million was used for investing activities, primarily due to $16.8 million of capital expenditures of which $14.1 million was used to expand and increase manufacturing capacity in North America and the balance of the cash was used for numerous purchases, none of which was individually material. The cash paid for capital expenditures was partly offset by proceeds from the sale of assets of $5.3 million and a Keymark-related entity’s repayment of a loan of $0.7 million. Net cash paid for the ShearBrace and Bierbach asset acquisitions totaled $6.5 million. In 2012, cash of $65.1 million was used for the acquisitions of S&P Clever, CarbonWrap and Keymark. Cash paid for capital expenditures was $22.0 million in 2012. The cash paid for capital expenditures was partly offset by

proceeds from the sale of assets of $7.6 million and a Keymark-related entity’s repayment of a loan of $1.7 million.

In December 2013, the Company sold for $3.3 million, net of severance costs, its CarbonWrap product line assets, which included intangible assets and goodwill. In September 2013, the Company sold for $1.0 million, net of closing costs, its facilities in Ireland. In the first quarter of 2013, the Company recorded a $1.0 million impairment charge on its Ireland facilities.

The Company’s financing activities used $25.6 million, $13.4 million and $30.5 million in net cash in 2014, 2013 and 2012, respectively. The Company used net cash in its financing activities in 2014 for the payment of cash dividends of $25.9 million, the repurchase of the Company’s stock for $3.0 million and for contingent consideration related to an asset acquisition of $1.3 million. Cash provided was primarily from issuance of the Company’s common stock on exercise of stock options of $4.6 million.

In 2013, the Company used cash for financing activities for the payment of cash dividends of $18.1 million and the repurchase of the Company’s stock for $9.8 million. Cash provided was primarily from issuance of the Company’s common stock on exercise of stock options of $15.1 million. In 2012, the uses of cash for financing activities were for payments of cash dividends of $30.2 million, repayment of line of credit borrowings associated with S&P Clever of $5.7 million, debt issuance fees of $1.4 million

related to the Company's $300.0 million credit agreement and payment of contingent consideration related to the 2011 Fox Industries acquisition of $0.3 million. Cash provided was primarily from issuance of the Company's common stock of $4.9 million and line of credit borrowings associated with S&P Clever of $2.2 million.

In February 2015, the Company's Board of Directors authorized the Company to repurchase up to $50.0 million of the Company's common stock. The authorization will remain in effect through the end of 2015. This replaced the $50.0 million repurchase authorization from February 2014. During 2014, the Company repurchased 0.1 million shares of its common stock, at a total cost of $3.0 million, and during 2013, the Company repurchased 0.3 million shares of its common stock, at a total cost of $9.8 million.

In July 2012, the Company entered into an unsecured credit agreement with a syndicate of banks providing for a 5-year revolving credit facility of $300.0 million, which includes a letter of credit sub-facility of up to $50.0 million. The Company may have the ability to increase the amount available under the credit agreement by an additional $200.0 million, to a maximum of $500.0 million, if existing lenders or new lenders are willing to make additional commitments and if the Company satisfies certain other conditions. On any such increase, the pricing for the facility may be subject to change. 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 December 31, 2014, the LIBOR Rate was 0.16%), 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 proceeds of loans advanced under the credit agreement and letters of credit issued thereunder may be used for working capital and other general corporate needs of the Company, to pay dividends to the Company's stockholders or to repurchase outstanding securities of the Company as permitted by the credit agreement, and to finance acquisitions by the Company permitted by the credit agreement. No loans or letters of credit are currently outstanding under the credit agreement. The Company and its subsidiaries are required to comply with various affirmative and negative covenants. The covenants include provisions that would limit the availability of funds as a result of a material adverse change to the Company's financial position or results of operations. As of December 31, 2014, the Company was in compliance with its financial covenants under the credit agreement. The unsecured credit agreement expires in July 2017.

The Company's contractual obligations, as of December 31, 2014, for future payments are as follows, in thousands:

	Payments Due by Period				
Contractual Obligation	Total all periods	Less than 1 year	1 — 3 years	3 — 5 years	More than 5 years
Debt interest obligations	$1,163	$450	$713	$—	$—
Operating lease obligations	19,194	6,658	7,378	3,211	1,947
Purchase obligations	25,673	25,581	62	30	—
Total	$46,030	$32,689	$8,153	$3,241	$1,947

Purchase obligations consist of commitments primarily related to the acquisition, construction or expansion of facilities and equipment, consulting agreements, pension fund contributions and minimum purchase quantities of certain raw materials. The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. Debt interest obligations include interest payments on fixed-term debt, line-of-credit borrowings and annual facility fees on the Company’s primary line-of-credit facility. Interest on line-of-credit facilities was estimated based on historical borrowings and repayment patterns. The Company’s primary line-of-credit facility includes annual facility fees from 0.15% to 0.30%, depending on the Company’s leverage ratio, on the unused portion of the facilities.

At December 31, 2014, the Company reported a gross liability of $1.5 million for uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments, if any, in individual years in connection with these

liabilities; therefore, such amounts are not included in the above contractual obligation table. See Notes 1 and 9 to the Company's Consolidated Financial Statements.

Inflation

The Company believes that the effect of inflation on the Company has not been material in recent years, as general inflation rates have remained relatively low. The Company's main raw material, however, is steel, and increases in steel prices may adversely affect the Company's gross profit margins if it cannot recover higher costs through price increases.

Indemnification Provisions

In the normal course of business, the Company indemnifies employees, officers, directors, consultants and third parties with which the Company has contractual arrangements under terms that may require the Company to make payments in relation to certain events. The Company has not incurred significant obligations under indemnification provisions historically, and does not expect to incur significant obligations in the future. Accordingly, the Company has not recorded a liability for these indemnities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company has no variable interest-rate debt investments.

The Company has foreign exchange rate risk in its international operations, primarily Europe and Canada, and through purchases from foreign vendors. The Company does not currently hedge this risk. If the exchange rate were to change by 10% in any one country where the Company has operations, the change in net income would not be material to the Company's operations taken as a whole. The translation adjustment resulted in a decrease in accumulated other comprehensive income of $24.9 million for the year ended December 31, 2014, primarily due to the effect of the strengthening of the United States dollar in relation to all foreign currencies during the fourth quarter of 2014.

Item 8. Consolidated Financial Statements and Supplementary Data.

SIMPSON MANUFACTURING CO., INC.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Simpson Manufacturing Co., Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Simpson Manufacturing Co., Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate

/s/ PricewaterhouseCoopers LLP
San Francisco, California

March 2, 2015

Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share data)

	December 31, 2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$260,307	$251,208
Trade accounts receivable, net	92,015	90,017
Inventories	216,545	197,728
Deferred income taxes	14,662	15,611
Other current assets	20,789	16,454
Total current assets	604,318	571,018
Property, plant and equipment, net	207,027	209,533
Goodwill	123,881	129,218
Intangible assets	32,587	41,773
Other noncurrent assets	5,252	4,983
Total assets	$973,065	$956,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Line of credit and notes payable	$18	$103
Trade accounts payable	22,860	34,933
Accrued liabilities	56,078	51,745
Accrued profit sharing trust contributions	5,384	5,784
Accrued cash profit sharing and commissions	6,039	6,049
Accrued workers' compensation	4,101	4,591
Total current liabilities	94,480	103,205
Long-term liabilities	15,120	12,041
Total liabilities	109,600	115,246
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, par value $0.01; authorized shares, 5,000; issued and outstanding shares, none	—	—
Common stock, par value $0.01; authorized shares, 160,000; issued and outstanding shares, 48,966 and 48,712 at December 31, 2014 and 2013, respectively	489	486
Additional paid-in capital	220,982	207,418
Retained earnings	649,174	615,289
Accumulated other comprehensive income (loss)	(7,180)	18,086
Total stockholders' equity	863,465	841,279
Total liabilities and stockholders' equity	$973,065	$956,525

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

Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
Net sales	$752,148	$705,322	$656,231
Cost of sales	410,118	391,791	373,759
Gross profit	342,030	313,531	282,472
Operating expenses:			
Research and development and other engineering	39,018	36,843	35,919
Selling	92,031	85,102	82,364
General and administrative	111,500	108,070	99,968
Impairment of goodwill	530	—	2,346
Net loss (gain) on disposal of assets	(325)	2,038	166
	242,754	232,053	220,763
Income from operations	99,276	81,478	61,709
Interest income	901	987	1,005
Interest expense	(855)	(901)	(793)
Income before taxes	99,322	81,564	61,921
Provision for income taxes	35,791	30,593	20,003
Net income	$63,531	$50,971	$41,918
Earnings per common share:			
Basic	$1.30	$1.05	$0.87
Diluted	$1.29	$1.05	$0.87
Weighted average number of shares outstanding			
Basic	48,977	48,521	48,339
Diluted	49,194	48,673	48,412

The accompanying notes are an integral part of these consolidated financial statements
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Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(In thousands)

	Year End December 31,		
	2014	2013	2012
Net income	$63,531	$50,971	$41,918
Other comprehensive income:			
Translation adjustment, net of tax benefit (expense) of ($63), $29 and $33 for 2014, 2013 and 2012, respectively	(24,896)	5,941	5,559
Unamortized pension adjustments, net of tax benefit (expense) of $67, ($3) and $46 for 2014, 2013 and 2012, respectively	(370)	46	(243)
Comprehensive income	$38,265	$56,958	$47,234

The accompanying notes are an integral part of these consolidated financial statements
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Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2012, 2013 and 2014
(In thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Par Value					
Balance, January 1, 2012	48,163	$481	$170,483	$580,616	$6,783	$—	$758,363
Net income	—	—	—	41,918	—	—	41,918
Translation adjustment, net of tax	—	—	—	—	5,559	—	5,559
Pension adjustment net of tax	—	—	—	—	(243)	—	(243)
Options exercised	185	2	4,923	—	—	—	4,925
Stock-based compensation expense	—	—	10,195	—	—	—	10,195
Tax benefit of options exercised	—	—	(233)	—	—	—	(233)
Cash dividends declared on common stock, $0.625 per share	—	—	—	(30,225)	—	—	(30,225)
Shares issued from release of restricted stock units	62	—	(1,109)	—	—	—	(1,109)
Common stock issued at $33.71 per share	12	—	418	—	—	—	418
Balance, December 31, 2012	48,422	483	184,677	592,309	12,099	—	789,568
Net income	—	—	—	50,971	—	—	50,971
Translation adjustment, net of tax	—	—	—	—	5,941	—	5,941
Pension adjustment net of tax	—	—	—	—	46	—	46
Options exercised	512	5	15,052	—	—	—	15,057
Stock-based compensation expense	—	—	12,090	—	—	—	12,090
Tax benefit of options exercised	—	—	(2,645)	—	—	—	(2,645)
Repurchase of common stock	(342)	—	—	—	—	(9,825)	(9,825)
Retirement of common stock		(4)	—	(9,821)		9,825	—
Cash dividends declared on common stock, $0.375 per share	—	—	—	(18,170)	—	—	(18,170)
	111	2	(2,074)	—	—	—	(2,072)

Shares issued from release of restricted stock units							
Common stock issued at $33.81 per share	9	—	318	—	—	—	318
Balance, December 31, 2013	48,712	486	207,418	615,289	18,086	—	841,279
Net income	—	—	—	63,531	—		63,531
Translation adjustment, net of tax	—	—	—	—	(24,896)	—	(24,896)
Pension adjustment net of tax	—	—	—	—	(370)	—	(370)
Options exercised	161	2	4,580	—	—	—	4,582
Stock-based compensation expense	—	—	12,354	—	—	—	12,354
Tax benefit of options exercised	—	—	(268)	—	—	—	(268)
Repurchase of common stock	(95)	—	—	—	—	(2,981)	(2,981)
Retirement of common stock	—	(1)	—	(2,980)	—	2,981	—
Cash dividends declared on common stock, $0.545 per share	—	—	—	(26,666)	—	—	(26,666)
Shares issued from release of restricted stock units	177	2	(3,504)	—	—	—	(3,502)
Common stock issued at $35.87 per share	11	—	402	—	—	—	402
Balance, December 31, 2014	48,966	$489	$220,982	$649,174	$(7,180)	$—	$863,465

The accompanying notes are an integral part of these consolidated financial statements
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Simpson Manufacturing Co., Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net income	$63,531	$50,971	$41,918
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (gain) on sale of assets	(325)	2,038	166
Depreciation and amortization	27,918	27,518	26,857
Impairment of long-lived assets	—	1,025	803
Impairment of goodwill	530	—	2,346
Gain on contingent consideration adjustment	(545)	—	—
Deferred income taxes	2,181	3,620	189
Noncash compensation related to stock plans	13,190	12,747	10,667
Excess tax benefit of options exercised	(79)	(80)	(110)
Provision for (recovery of) doubtful accounts	151	(48)	355
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Trade accounts receivable	(4,568)	(6,651)	(2,678)
Inventories	(22,428)	8,458	(17,045)
Other current assets	(3,683)	27	3,970
Other noncurrent assets	(600)	237	(244)
Trade accounts payable	(11,266)	(2,708)	12,208
Accrued liabilities	2,270	2,653	(909)
Accrued profit sharing trust contributions	(382)	617	703
Accrued cash profit sharing and commissions	81	2,611	(54)
Other long-term liabilities	2,607	(1,024)	(1,433)
Accrued workers' compensation	(490)	(100)	(783)
Income taxes payable	(872)	4,595	(8,874)
Net cash provided by operating activities	67,221	106,506	68,052
Cash flows from investing activities			
Capital expenditures	(23,715)	(16,804)	(21,961)
Business acquisitions, net of cash acquired	(220)	(6,493)	(65,125)
Loan made to customer	(281)	—	—
Loan repayment by customer	39	—	—
Loan repayments by related parties	—	700	1,698
Proceeds from sale of assets and businesses	672	5,262	7,642
Net cash used in investing activities	(23,505)	(17,335)	(77,746)
Cash flows from financing activities			
Line of credit and other borrowings	—	—	2,183
Repayment of line of credit and other borrowings	(77)	(81)	(5,747)
Debt issuance costs	—	—	(1,415)
Contingent consideration of asset acquisitions	(1,293)	(520)	(354)
Repurchase of common stock	(2,981)	(9,825)	—
Issuance of Company's common stock	4,582	15,057	4,925
Excess tax benefit of options exercised	79	80	110

Dividends paid	(25,918)	(18,130)	(30,193)
Net cash used in financing activities	(25,608)	(13,419)	(30,491)
Effect of exchange rate changes on cash	(9,009)	(97)	1,921
Net increase (decrease) in cash and cash equivalents	9,099	75,655	(38,264)
Cash and cash equivalents at beginning of year	251,208	175,553	213,817
Cash and cash equivalents at end of year	$260,307	$251,208	$175,553
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for			
Interest	$117	$30	$350
Income taxes	34,977	23,624	31,391
Noncash activity during the year for			
Capital expenditures	$1,031	$1,082	$974
Asset acquisition	—	806	786
Stock-based compensation	402	318	418
Dividends declared but not paid	6,843	6,095	6,053
Contribution in excess of pension benefit cost	39	55	57

The accompanying notes are an integral part of these consolidated financial statements
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Simpson Manufacturing Co., Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Operations and Summary of Significant Accounting Policies

Nature of Operations

Simpson Manufacturing Co., Inc., through its subsidiary Simpson Strong-Tie Company Inc. ("Simpson Strong-Tie") and its other subsidiaries (collectively, the "Company"), designs, engineers and is a leading manufacturer of wood construction products, including connectors, truss plates, fastening systems, fasteners and shearwalls, and concrete construction products, including adhesives, specialty chemicals, mechanical anchors, powder actuated tools and fiber reinforcing materials. The Company markets its products to the residential construction, industrial, commercial and infrastructure construction, remodeling and do-it-yourself markets.

The Company operates exclusively in the building products industry. The Company's products are sold primarily in the United States, Canada, Europe, Asia and the South Pacific. Revenues have some geographic market concentration on the west coast of the United States. A portion of the Company's business is therefore dependent on economic activity within this region and market. The Company is dependent on the availability of steel, its primary raw material.

Revisions

The Company revised its December 31, 2013, Consolidated Balance Sheet to classify $2.9 million of deferred income tax assets as deferred income taxes (current assets) that had erroneously been classified as long-term liabilities. This revision was not considered material to the affected period.

Out-of-Period Adjustment

In the first quarter of 2014, the Company recorded an out-of-period adjustment, which increased gross profit, income from operations and net income in total by $2.3 million, $2.0 million and $1.3 million, respectively. The adjustment resulted from an over-statement of prior periods' workers compensation expense, net of cash profit sharing expense, and was not material to the current period's or any prior period's financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Simpson Manufacturing Co., Inc. and its subsidiaries. Investments in 50% or less owned entities are accounted for using either cost or the equity method. The Company consolidates all variable interest entities (VIEs) where it is the primary beneficiary. There were no VIEs as of December 31, 2014 or 2013. All significant intercompany transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 fix